

**Mortgage Enhancements
HSBC North America Holdings, Inc.
HSBC Finance Corporation
Action Plan Response to FRB Consent Order
Article 8 Mortgage Servicing Compliance**

Final Pending Approval from the Compliance Committee

October 20, 2011

Article 8

FRB Order Reference:	<i>Article 8</i>	Corresponding OCC Article:	<i>IV.1</i>
<p><i>Within 60 days of this Order, HBIO shall submit to the Reserve Bank an acceptable compliance program and timeline for implementation to ensure that the operations of the Mortgage Servicing Companies, including, but not limited to, residential mortgage loan servicing, Loss Mitigation, and foreclosure, comply with the Legal Requirements, as well as the Mortgage Servicing Companies' internal policies, procedures, and processes and are conducted in a safe and sound manner. The program shall, at a minimum, address, consider, and include:</i></p>			
<p>Action Plan</p> <p>HBIO's and HBUS' Compliance Program centers around the requirement that residential mortgage loan servicing and foreclosure operations, including Loss Mitigation practices, comply with all applicable Legal Requirements, supervisory guidance of the Board of Governors, and the requirements of this Order. Also, all such operations must be conducted in a safe and sound manner and in accordance with internal policies, procedures and processes. As further detailed below, HBIO and HBUS have existing policies and procedures which meet many requirements contained in Article 8, sections (a) through (m). HBIO and HBUS are taking steps to enhance their policies, procedures, and processes to address any gaps where the requirements outlined in Article 8, sections (a) through (m) are not fully addressed.</p> <p>HBIO and HBUS have been revising policies and procedures since the last quarter of 2010 prior to the start of the horizontal review. Below are examples of procedures that have been updated:</p> <ul style="list-style-type: none"> • Foreclosure Collateral Retrieval Procedure HBUS – last revised August 24, 2011 (prior version June 10, 2011) • Pre-foreclosure Note Validation User Manual HBUS – last revised August 31, 2011 (prior version June 10, 2011) • Payment Reversal Policy ALL – last revised September 7, 2011 (prior version April 8, 2010) • Late Charge (fee) Matrix Procedure CML – October 10, 2011 (prior version October 11, 2010) • Chapter 11, 12, and 13 Bankruptcy Policy ALL – last revised August 23, 2010 (prior version February 4, 2010) <p>In addition, pursuant to the Good Governance Initiative, there will be more updates to policies and procedures. The objective of the Good Governance Initiative is to ensure that there are proper procedures in place within HNAH for all applicable business and operational processes, and that these procedures are clear, concise, thorough, and accurate. The Good Governance Initiative will be completed in the fourth quarter of 2011.</p>			

HBIO's and HBUS' existing Compliance Program, along with enhancements thereto, demonstrates HBIO's and HBUS' commitment to ensure mortgage loan servicing, Loss Mitigation, and foreclosure activities are performed in compliance with Legal Requirements, supervisory guidance and internal policies and procedures, and are conducted in a safe and sound manner.

Below is a summary of existing processes that address requirements of the Order and areas requiring enhancement. These process and enhancements are further detailed below in our Action Plan responses to Articles 8(a) through (m):

Existing Processes	Required Enhancements
<ul style="list-style-type: none"> • The HSBC – North America Compliance Risk Management Program Manual and Legal Entity, and Business Unit Compliance policies state and serve as a means for communicating the roles, duties, responsibilities of HBIO and HBUS, as well as Third Parties related to Compliance (noted in Articles 8(a) and 8(b)) • HBIO and HBUS have processes/programs in place which ensure the ability to locate and secure all documents, including original promissory notes (noted in Article 8(c)) • HBIO and HBUS have taken steps to improve the quality review process to ensure the accuracy and completeness of all factual assertions made in pleadings, declarations, and affidavits (noted in Article 8(e).i) • HBIO and HBUS have policies and procedures in place that address crediting payments in a prompt and timely manner and correct the misapplication of borrower funds (noted in Article 8(f)) • HBIO and HBUS engaged outside counsel to review existing and 	<ul style="list-style-type: none"> • HBIO and HBUS are enhancing bankruptcy processes based on a review performed by outside counsel. Bankruptcy procedures, processes, and training materials for document review, execution and notarization and note ownership in connection with bankruptcy proceedings were in scope for the review (noted in Articles 8(e).iii and 8(e).iv) • HBIO and HBUS are reviewing their existing processes and will strengthen preventive and detection controls as applicable to ensure all assessment of fees, expenses, and other charges are in accordance with the applicable Legal Requirements (noted in Article 8(h))

develop new standard affidavit and declaration forms for use in each state and, where required, by local practice of individual counties (noted in Article 8(e).i), except the District of Columbia	
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Documents to be submitted with the Action Plan

- Refer to Actions Plans for Article 8, sections (a) through (m)
- Foreclosure Collateral Retrieval Procedure HBUS – last revised August 24, 2011 (prior version June 10, 2011)
- Pre-foreclosure Note Validation User Manual HBUS – last revised August 31, 2011 (prior version June 10, 2011)
- Payment Reversal Policy ALL – last revised September 7, 2011 (prior version April 8, 2010)
- Late Charge (fee) Matrix Procedure CML – October 10, 2011 (prior version October 11, 2010)
- Chapter 11, 12, and 13 Bankruptcy Policy ALL – last revised August 23, 2010 (prior version February 4, 2010)

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED] SVP Default Services
- [REDACTED] EVP/Chief Auditor, HBIO
- [REDACTED], SVP Service Delivery Control Adherence

Article 8(a)

FRB Order Reference:	<i>Article 8(a)</i>	Corresponding OCC Article:	<i>N/A</i>
<i>The duties and responsibilities of line of business staff, other staff, and Third-Party Providers regarding compliance;</i>			
<p>Action Plan</p> <p>HBIO and HBUS have existing programs, as described below, which address the duties and responsibilities of line of business staff, other staff, and Third-Party Providers regarding compliance.</p> <p><u>Existing Processes / Programs:</u></p> <p>The attached HSBC – North America Compliance Risk Management Program Manual describes the duties and responsibilities of line of business staff and other staff regarding compliance with applicable state and federal laws and regulations (See pages 36 and 37). For example, HBIO and HBUS staff are required to:</p> <ul style="list-style-type: none"> • follow the HSBC – North America Compliance Risk Management Program Manual and the related HBIO and HBUS compliance policies and procedures; • be knowledgeable of, and compliant with, regulatory and compliance requirements that are specifically related to their positions; • understand and manage operational risks affecting their areas of responsibility, including by maintaining adequate internal controls; • ask questions or express concerns if their compliance role or responsibility is not understood; • successfully complete the annual required compliance training; • report matters that may involve possible compliance breaches or violations to their supervisors and HNAH Compliance on a timely basis; and • refrain from participating in any activity that may be perceived as dishonest or unethical or that violates the HNAH Statement of Business Principles and Code of Ethics. <p>In addition, HSBC Group has a Compliance Disclosure Telephone Line which is designed to allow employees to make disclosures of compliance matters when the normal channels for airing grievances or concerns are unavailable or inappropriate. As an example, breaches of legal and regulatory requirements by any Group company, including the committal of a criminal offence, a miscarriage of justice or a failure to comply with a legal obligation can be reported through the Compliance Disclosure Telephone Line (Refer to Integrity Compliance Hotline Screen Shots for additional detail).</p> <p>As detailed in the Action Plan Response to Article 6(a), HNAH has specific policies in place to address the responsibilities of Third Parties such as the Group Operations Functional Instruction Manual (“FIM”) for Vendor Risk Management (See B.2.15</p>			

Vendor Risk Management), the HSBC - North America Vendor Risk Management Policy (Version 1.1, March 2011), and HSBC – North America Vendor Risk Management Procedures (Version 2.2 April 2011).

Additionally, HBIO and HBUS have established the HSBC Best Practices document (See HSBC Best Practices for Outside Foreclosure, Eviction and Bankruptcy Law Firms) which contains guidelines that establish HBIO and HBUS expectations to ensure compliance with Legal Requirements, including the proper review, execution and notarization of complaints, affidavits and other documents, as well as information security requirements. The HSBC Best Practices document is distributed to each of its external Law Firms for review and reference (as used herein, collectively “Law Firms” or “Firms” are defined as law firms and trustees directly engaged by mortgage servicing personnel that provide foreclosure and bankruptcy related legal services to HBIO and HBUS Mortgage Servicing personnel in accordance with applicable foreclosure, eviction, or bankruptcy laws, rules, and regulations). The Best Practices will be sent to Law Firms periodically, typically on an annual basis.

The HSBC – North America Compliance Risk Management Program Manual, the North America Vendor Risk Management Policy, the North America Vendor Risk Management Procedures, and the HSBC Best Practices document described above are designed to ensure the duties and responsibilities of line of business staff, other staff, and Third-Party Providers regarding compliance are well defined. Additionally, Residential Mortgage Servicing, Vendor Management, Compliance and Legal Management have reviewed these documents and believe the procedures and processes contained therein meet this requirement of the Order.

As more fully described in Article 6(a), the Third Party Operational Risk Management Group (“TPORMG”) developed the Third Party Operational Risk Management Procedures (the “TPORMG Procedure”) to ensure consistent adherence to the VRM Policy and Procedures and provide additional oversight for Mortgage Servicing Third Party Providers (See Section 1 of the Mortgage Servicing Third Party Operational Risk Management Procedures). HSBC Legal developed the HSBC Mortgage Servicing Legal Department Law Firm Management Procedures and HSBC Mortgage Servicing Law Firm Management User Manual, (together the “Law Firm Management Procedures”) pursuant to which Legal manages the evaluation and monitoring of Law Firms in collaboration with TPORMG, Information Security, Compliance, Operations and VRM. The Law Firm Management Procedures describe the scope of Law Firm legal reviews for new and existing Firms and the frequency for ongoing Law Firm legal reviews.

In addition to the procedures noted above, HBIO and HBUS developed a standard Master Services Agreement (“Law Firm MSA”) specifically for use with external Law Firms. The Law Firm MSA was developed by HSBC Legal in collaboration with various business and functional departments including TPORMG, Vendor Risk Management, Foreclosure, Bankruptcy and REO. The Law Firm MSA requires that each external Law Firm perform in compliance with applicable laws and judicial requirements, as well as HBIO and HBUS policies and procedures, as applicable, well

as, and that such policies and procedures are fully understood by all Law Firm personnel involved with HBIO and HBUS matters (See Master Services Agreement (Legal Services) and in particular, the Law Firm's Covenants and Obligations section, pages 11 through 15, for an example of what is included in the Law Firm MSA). The Law Firm MSA was distributed for execution to active foreclosure Law Firms in September 2011.

TPORMG has responsibility for monitoring a Firm's compliance with the requirements contained in the Law Firm MSA. TPORMG monitors Firm compliance through a variety of means. For example, TPORMG leverages HSBC Legal to conduct Firm reviews designed to among other things assess Firm compliance with Legal Requirements. The scope and frequency of these Firm reviews is described in the HSBC Mortgage Servicing Legal Department Law Firm Management Procedures (see section 5.3). TPORMG will also oversee and ensure that Firms are monitored for compliance with quality, reputational, operational, and other risks consistent with HBIO's and HBUS' policies, procedures, and practices, and the Vendor Risk Management Program, as well as the terms and conditions of the Law Firm MSA. TPORMG has developed scorecards designed to track and assess Firm performance against service level and performance requirements contained in the Law Firm MSA. The scorecard results, as well as the Firm's adherence to Law Firm MSA performance and service level requirements will be presented to the Mortgage Servicing Operations Third Party Provider Governance Committee (Third Party Governance Committee) described in Article 6(a).

The performance of all Third Party Providers including Law Firms will be measured against defined service levels, performance levels, and contract terms. TPORMG has developed the TPORMG [REDACTED] Database (the "TPORMG Database") to facilitate and strengthen the monitoring and oversight of Third Party Providers; including the storage of performance data of Third Party Providers (see section 1.5 of the Mortgage Servicing Third Party Operational Risk Management Procedures). For legacy relationships and Law Firms, through December 2011, HBIO and HBUS will be conducting a gap analysis of defined service and performance levels against existing reporting to ensure HBIO and HBUS can appropriately and effectively measure Third Party performance and results and where applicable will develop new or enhanced reporting. The defined service levels will be maintained centrally in the TPORMG Database. TPORMG will review the applicable performance reporting and update results in the Database. Scorecards and Dashboard reporting will be generated for review in the monthly Third Party Governance Committee. Prior to year end, it is anticipated service and performance level data on all Law Firms and legacy Third Party relationships will be loaded to the Database which will allow for consistent reporting and oversight of Mortgage Servicing Third Party Providers. In addition to performance and service level standards other critical information such as the status of due diligence, audit, risk assessments and remediation timelines will be stored in, and reported from the TPORMG Database. This collective information including the trending of customer complaints regarding Third Party Providers will be reviewed and discussed in the Third Party Governance Committee (See Mortgage Servicing

Operations Third Party Provider Governance Charter in its entirety). Material and/or significant issues or exceptions regarding Third Party Providers, including Law Firms, are reviewed in this oversight committee. Based on information reported from the TPORMG Database decisions regarding Law Firms, including whether to continue to do business with the Law Firm, or the reduction of new referrals, removal of existing files, and or termination will be made by this oversight committee.

The TPORMG Procedures, Law Firm Management Procedures, Best Practices, Law Firm MSA, and TPORMG Database are some of the tools developed by HBIO and HBUS to monitor and manage Third Party Providers with particular emphasis on the monitoring of Law Firms, to ensure that Third Party Providers comply with applicable law and judicial requirements and HBIO and HBUS policies and procedures.

The TPORMG is a control function embedded in Residential Mortgage Servicing Operations as a first line of defense to monitor Third Party Provider operational risk. The monitoring results will be reviewed and discussed during a monthly meeting with the Third Party Governance Committee. In addition to the Governance Committee, TPORMG is subject to review by HNAH Vendor Risk Management and Group Audit North America.

Enhancement to Processes / Programs:

While we believe these existing processes and procedures satisfy these requirements of the Order and, at the present time, enhancements are not deemed necessary, processes and procedures are subject to on-going review in the ordinary course of business to determine whether revisions or enhancements thereto are appropriate or necessary.

Documents to be submitted with the Action Plan

- HSBC – North America Compliance Risk Management Program Manual (see revised HSBC – North America Compliance Risk Management Program Manual below, last revised September 2011)
- HSBC – North America Vendor Risk Management (VRM) Policy
- HSBC North America Vendor Risk Management (VRM) PROCEDURES
- B.2.15 Vendor Risk Management
- DRAFT MASTER SERVICES AGREEMENT (LEGAL SERVICES) (see revised MASTER SERVICES AGREEMENT (LEGAL SERVICES) below)
- HSBC BEST PRACTICES FOR ITS OUTSIDE FORECLOSURE FIRMS (see revised HSBC BEST PRACTICES FOR OUTSIDE FORECLOSURE, EVICTION AND BANKRUPTCY LAW FIRMS below)

Additional documents completed for re-submission of Action Plan

- MASTER SERVICES AGREEMENT (LEGAL SERVICES)
- HSBC BEST PRACTICES FOR OUTSIDE FORECLOSURE, EVICTION AND BANKRUPTCY LAW FIRMS
- Mortgage Servicing Operations Third Party Provider Governance Charter
- Mortgage Servicing Third Party Operational Risk Management Procedures
- HSBC Mortgage Servicing Legal Department Law Firm Management PROCEDURES
- HSBC Mortgage Servicing Law Firm Management User Manual
- HSBC – North America Compliance Risk Management Program Manual
- Integrity Compliance Hotline Screen Shots

Key HSBC Contacts for the Action Plan

- [REDACTED], SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED], SVP General Compliance
- [REDACTED], EVP Chief of Staff HTSN and NA Head of Procurement

Article 8(b)

FRB Order Reference:	<i>Article 8(b)</i>	Corresponding OCC Article:	<i>N/A</i>
<i>policies for developing and communicating compliance-related roles and responsibilities across the Mortgage Servicing Companies' organization and to Third-Party Providers;</i>			
Action Plan			
<p>HBIO and HBUS have existing programs in place for developing and communicating compliance-related roles and responsibilities across HBIO and HBUS and to Third-Party Providers. Management believes the existing programs, described below, meet the requirements of the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>The Compliance Risk Management Program includes a process for the communication of compliance roles and responsibilities across the organization by publishing policies on the HNAH and HSBC Group intranet.</p>			
<p>HSBC – North America Compliance Risk Management Program Manual section 3.3, provides detail regarding the HNAH Compliance Governance Roles and Responsibilities. HSBC – North America Compliance Risk Management Program Manual section 3.5.6 (page 33) states that business line management must serve as a first line of defense and establish effective compliance programs and build compliance policies, procedures and controls into their business delivery and operations functions. Individuals within the business units who own the relationships with the Third-Party Providers are responsible for ongoing monitoring of the Third-Party Providers' performance against Service Level Agreements (SLA) and contract terms, which include compliance with Legal Requirements, supervisory guidance and HBIO's and HBUS' policies and procedures. The attached "Third Party Operational Risk Management Department Instruction Book ("DIB")" provides an overview of the roles and responsibilities of the TPORMG and business line management and provides the policies and procedures that govern management of Third Party Providers. Compliance related roles and responsibilities are also communicated to employees via the following methods:</p>			
<ul style="list-style-type: none"> • Employees are hired into a job that is described by a job code description. This ensures that when employees begin working, they have a broad overview of their duties & responsibilities. TPORMG is in the process of creating new job descriptions that will specifically detail employee roles and responsibilities. These job descriptions are targeted for completion by October 31, 2011 • Employees receive training (both formal Compliance courses as well as functional on-the-Job training) that helps them understand how to execute against their duties and responsibilities • Managers hold team meetings with their employees to review duties and 			

responsibilities

- Employees receive direct feedback from their manager on the performance through individual coaching sessions on their performance of their duties and responsibilities
- Employees receive direct feedback on their production for any quality control errors
- Employees also have access to all relevant policies and procedures for their work functions on [REDACTED] ([REDACTED]) residing on the intranet
- If employees have questions about their duties and responsibilities, they are in close proximity to or can access their manager via telephone for additional clarification

As more fully described in Article 6(a), the Third Party Operational Risk Management Group (“TPORMG”) developed the Third Party Operational Risk Management Procedures (the “TPORMG Procedure”) to ensure consistent adherence to the VRM Policy and Procedures and provide additional oversight for Mortgage Servicing Third Party Providers (See Section 1 of the Mortgage Servicing Third Party Operational Risk Management Procedures). HSBC Legal developed the HSBC Mortgage Servicing Legal Department Law Firm Management Procedures and HSBC Mortgage Servicing Law Firm Management User Manual (together, the “Law Firm Management Procedures”) pursuant to which Legal manages the evaluation and monitoring of Law Firms in collaboration with TPORMG, Information Security, Compliance, Operations and VRM. The Law Firm Management Procedures describe the scope of Law Firm legal reviews for new and existing Firms and the frequency for ongoing Law Firm legal reviews.

Compliance related roles and responsibilities are communicated across the Residential Mortgage Servicing operations staff via the mechanisms listed above. The general job descriptions and corporate level training (both web-based and in-person) provide communication of major compliance related requirements. For example, the entire organization receives annual training on Anti-Money Laundering requirements. In addition, managers communicate more granular requirements (and changes to these requirements) during their team or individual meetings. If a compliance related error occurs (either during customer discussions or account processing), and the error is captured by the QC review functions (e.g., SDCA), that direct feedback is given to the employee. Compliance related roles and responsibilities are communicated via the intranet, job descriptions, web-based training, in-person training, team meetings, individual meetings, and performance reviews.

Residential Mortgage Servicing and business owners are required to annually certify the accuracy and completeness of the policies, procedures, and processes, including updates or revisions based on changes to Legal Requirements or supervisory guidance. Management has a comprehensive process in place to identify, communicate and implement changes to Legal Requirements and supervisory

guidance into its business practices. The Regulatory Monitoring & Assessment (RMA) group manages the regulatory monitoring and change management process in order to facilitate compliance with the applicable Legal Requirements and Board of Governors supervisory guidance (See HSBC North America New Laws and Regulations Procedure – US). Revisions or updates to policies and procedures may occur on a more frequent basis as dictated by changes in Legal Requirements or supervisory guidance. To document that the certification process has occurred, each policy or procedure is submitted through a change control process. A Change Control Request Form (“CCR”) is submitted to the appropriate business owners, with the document(s) attached that requires certification. The CCR form systemically tracks to ensure all required approvals have been obtained. Annually, each business process owner will certify that the policies and procedures applicable to their area of responsibility are accurate. This annual certification will be maintained by the Operational Quality and Process Assurance (“OQPA”) group. All policies and procedures are expected to be certified as part of the Good Governance Initiative by the end of the fourth quarter of 2011.

Compliance policies at the Group, HNAH, and business unit levels are designed to ensure HNAH employees comply with applicable regulatory requirements. There are various types of compliance policies in place across HNAH:

- **HNAH Compliance Policies** - HNAH compliance policies are regional documents containing guiding principles that provide general direction and communicate a clear commitment or set of expectations by the organization. HNAH compliance policies apply across the region, including all U.S. subsidiaries. HNAH compliance policies are also governed by the HNAH Policy Setting Standard (“Policy Standard”), which is owned by North America Risk Governance. These compliance policies are approved by management in accordance with the Policy Standard. Further, certain key firm-wide policies are reviewed by the ORIC (please see Section 2: Board Oversight for more information regarding ORIC responsibilities) and reviewed and approved by the HNAH Compliance Committee. These policies are centrally housed on the intranet and reviewed and approved at least annually in accordance with the Policy Standard.
- **Legal Entity Compliance Policies** - Legal entity compliance policies are developed when a regulation or subject matter is targeted at a particular legal entity within the organization. For example, Anti-Money Laundering compliance policies are issued at the legal entity level in order to customize requirements for employees based upon the products, services, and primary regulators overseeing each entity. Legal entity compliance policies are centrally housed on the intranet and are reviewed and approved by management annually.
- **Business Unit Compliance Policies** - Business unit compliance policies exist when even greater granularity of direction and expectation is required. For example, CML, a business unit that provides residential mortgage loan services for HBIO and HBUS, has its own compliance policies, many of which are HNAH level policies that are adopted at the HBIO and HBUS legal entity level. These policies are maintained by Residential Mortgage Servicing and are approved by the Compliance Officers assigned to the business annually.

HBIO and HBUS have specific policies in place to address the responsibilities of Third Party Providers. The three documents listed below outline the duties and responsibilities of external Law Firms and other Third Parties to comply with applicable laws, regulations, and HBIO and HBUS policies. Please reference the attached documents for additional information:

- B.2.15 Vendor Risk Management – serves to identify, control and mitigate the risks associated with the supply of goods and services by Third Party suppliers where HSBC’s own services and operations are dependent upon such supplies and/or in order to comply with applicable regulatory requirements.
- HSBC – North America Vendor Risk Management (VRM) Policy – establishes consistent requirements to help protect HSBC from the risks associated with Material Vendor relationships. See pages 6 and 7 of the HSBC – North America Vendor Risk Management (VRM) Policy for the definition of a Material Vendor.
- HSBC – North America Vendor Risk Management (VRM) Procedures – provides detailed information on how the Vendor Risk Management Program will identify the roles and responsibilities of the applicable areas that support the Vendor Risk Management process
- HSBC Mortgage Servicing Legal Department Law Firm Management Procedures – outline the review and audit process for Law Firms
- HSBC Mortgage Servicing Law Firm Management User Manual – outlines the Law Firm review and audit process described in the HSBC Mortgage Servicing Legal Department Law Firm Management Procedures
- Mortgage Servicing Third Party Operational Risk Management Procedures – outlines the practice of the Third Party Operational Risk Management Group

Additionally, HBIO and HBUS have established the HSBC Best Practices document (See attached HSBC BEST PRACTICES FOR OUTSIDE FORECLOSURE, EVICTION AND BANKRUPTCY LAW FIRMS) that contains a summary of Law Firm best practices to ensure compliance with the letter and spirit of all substantive and procedural laws and regulations, as well as HSBC policies and procedures by foreclosure, bankruptcy, and eviction Law Firms. The HSBC Best Practices document is distributed to each of its active Law Firms for use.

Please see the Action Plan response to Article 6(a) for a description of existing policies and procedures that further describe practices, procedures and tools for appropriate oversight of Third-Party Providers to ensure compliance with applicable Legal Requirements, supervisory guidance, and HBIO’s and HBUS’ policies and procedures.

Additionally, each Third-Party Provider is assigned a HNAH Relationship Manager. The Relationship Manager’s responsibilities include overseeing the relationship between the Third-Party Provider and HNAH’s lines of business ensuring compliance with applicable policy, enforcing management controls, and identifying and mitigating existing and potential risks.

The existing Compliance Risk Management Program described above, which includes HNAH Compliance Policies, Legal Entity Compliance Policies, Business Unit Compliance Policies, and Vendor Risk Management Policy, is designed to ensure the compliance-related roles and responsibilities are developed and communicated across the Bank's and Mortgage Servicing Companies' organization and to Third-Party Providers.

In addition to the existing policies and procedures noted above, as described in earlier Articles, HBIO and HBUS developed a Law Firm MSA to be executed by active Law Firms that provide legal services to Mortgage Servicing. . The Law Firm MSA, more specifically, requires that the Law Firm is in compliance with all laws and judicial requirements, as well as HBIO and HBUS policies, as applicable, and that such policies, procedures, and laws are fully understood by the Law Firm personnel providing services to HBIO and HBUS (See MASTER SERVICES AGREEMENT (LEGAL SERVICES)). The Law Firm MSA was distributed to active foreclosure Law Firms as in September 2011.

Enhancement to Processes / Programs:

While we believe these existing processes and procedures satisfy these requirements of the Order and, at the present time, enhancements are not deemed necessary, processes and procedures are subject to on-going review in the ordinary course of business to determine whether revisions or enhancements thereto are appropriate or necessary.

Documents to be submitted with the Action Plan

- HSBC – North America Compliance Risk Management Program Manual (see revised HSBC – North America Compliance Risk Management Program Manual below, last revised September 2011)
- HSBC – North America Compliance Risk Mitigation Program
- HSBC – North America Vendor Risk Management (VRM) Policy
- HSBC North America Vendor Risk Management (VRM) PROCEDURES
- B.2.15 Vendor Risk Management
- DRAFT MASTER SERVICES AGREEMENT (LEGAL SERVICES) (see revised MASTER SERVICES AGREEMENT (LEGAL SERVICES) below)
- HSBC BEST PRACTICES FOR ITS OUTSIDE FORECLOSURE FIRMS (see revised HSBC BEST PRACTICES FOR OUTSIDE FORECLOSURE, EVICTION AND BANKRUPTCY LAW FIRMS below)
- HSBC North America New Laws and Regulations Procedure – US

Additional documents completed for re-submission of Action Plan

- MASTER SERVICES AGREEMENT (LEGAL SERVICES)
- HSBC BEST PRACTICES FOR OUTSIDE FORECLOSURE, EVICTION AND BANKRUPTCY LAW FIRMS
- Third Party Operational Risk Management Department Instruction Book (DIB)
- HSBC – North America Compliance Risk Management Program Manual

- HSBC Mortgage Servicing Legal Department Law Firm Management Procedures
- Mortgage Servicing Third Party Operational Risk Management Procedures
- HSBC Mortgage Servicing Law Firm Management User Manual

Key HSBC Contacts for the Action Plan

- [REDACTED], EVP Chief of Staff HTSN and NA Head of Procurement
- [REDACTED], SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED], SVP General Compliance
- [REDACTED], SVP Deputy General Counsel, CML
- [REDACTED], SVP Compliance, HSBC Bank USA, NA

Article 8(c)

FRB Order Reference:	Article 8(c)	Corresponding OCC Article:	IV.1.i
<i>policies, procedures, and processes to ensure that the Mortgage Servicing Companies have the ability to locate and secure all documents, including original promissory notes, necessary to perform mortgage servicing, Loss Mitigation, and foreclosure functions and to comply with contractual obligations;</i>			
Action Plan			
<p>HBIO and HBUS have existing policies and procedures, described below, to ensure HBIO and HBUS have the ability to locate and secure all documents, including original promissory notes. As described below, some of HBIO's and HBUS' existing policies, procedures, and processes have been strengthened to ensure full compliance with this requirement of the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>HBIO and HBUS have processes for locating and securing all documents necessary to perform residential mortgage loan servicing, Loss Mitigation, and foreclosure functions and to comply with contractual obligations. To support these processes, HBIO and HBUS have policies and procedures in place to ensure physical loan records are maintained in a secure environment consistent with corporate policies and directives and that residential mortgage loan servicing, Loss Mitigation and foreclosure personnel can access those records as needed.</p>			
<p>As part of the process, HBIO and HBUS image customer correspondence and documents required to perform residential mortgage loan servicing, Loss Mitigation, loan modification, and foreclosure functions. Documents are imaged to specific document and folder types within the [REDACTED]. This enables multiple internal business users across functional areas to locate and view documents simultaneously, to perform residential loan servicing on loans. Collateral documents are further segmented to reflect that an original was received and retained in a secure location. Imaged documentation is maintained on an imaging repository ([REDACTED] for the life of the loan. The [REDACTED] application is a web based system for managing customer correspondence. Items are scanned into the application, indexed by loan number and document type, and then systemically routed to the appropriate workbaskets (queues). The attached [REDACTED] User Manual CML provides additional detail regarding the imaging and routing process. This imaging process further enhances the ability to locate and secure all customer documents, including original promissory notes.</p>			
<p>HBIO and HBUS have a process to validate physical possession of collateral when personal knowledge is required by law. When personal knowledge is not required by law, HBIO and HBUS use imaged copies, as described above, to validate documentation and perform audits that are designed to ensure possession of proper collateral.</p>			

Additionally, documents transferred within a secure location of HBIO and HBUS are hand-delivered, while overnight mail is used to send documents leaving a secure location. HBIO and HBUS verify sent documents are received and receipt is certified by the intended recipients. This process allows HBIO and HBUS to track and locate the documents while in transit (See Default Document Tracking and Retrieval Procedure ALL page 1 for an overview of this process).

HBIO and HBUS have strengthened their processes designed to verify possession of notes held by third parties by establishing the four new procedures noted below. An example of a strengthened process within these procedures is that a tracking process is now in place for sending original notes to foreclosure counsel and possession of original promissory notes must be verified electronically or certified by a custodian. In all judicial states and non-judicial states where possession of the original note is required in order to foreclose, HBIO or HBUS, as appropriate, confirm that it has possession of the original note and, where required by applicable law, the original note is sent to the Law Firm handling the foreclosure. The following procedures support the strengthened processes noted above:

- Pre Foreclosure Note Validation Procedure CML – outlines how HBIO validates possession of the original note prior to commencing a foreclosure action
- Foreclosure Collateral Retrieval Procedure HBUS – outlines how to retrieve original documents that are sent to attorneys.
- Pre-Foreclosure Note Validation User Manual HBUS – outlines how HBUS validates possession of the original note prior to commencing a foreclosure action
- Foreclosure Collateral Retrieval Procedure CML – outlines how to retrieve original documents that are sent to attorneys

The HBIO and HBUS processes and procedures noted above are designed to ensure the availability of all documents, including original promissory notes, however, in the event an original note is missing, a Lost Note Affidavit, if required, will be executed and sent to the Law Firm. As appropriate, the terms of the note are validated through an imaged copy of the note, and in non-judicial states, where confirmation of possession of the original note is not required prior to commencement of the foreclosure action (except where required by law), additional periodic audits to validate possession of these original notes will be conducted by the Records Department on a quarterly basis starting with the first quarter of 2012. See attached:

- Non-Judicial States Lost Note Affidavit-Declaration Procedure ALL and Judicial States- Lost Note Affidavit Procedures outline the steps for the Records Administration Department when processing a Lost Note Affidavit or Declaration of Lost Note
- Judicial States- (1) Lost Note Affidavit Procedures includes the following: Lost Note Affidavit – HI, IA, KY, ME, NM, NY, NC, ND, OH, OK, SC, DC Procedure ALL, (2) Lost Note Affidavit – IL, IN, KS, and NE Procedure ALL, (3) Lost Note Affidavit – CT, LA, and WI Procedure ALL, (4) Lost Note Affidavit – Vermont Procedure ALL, and (5) FL Lost Note Affidavit Procedure ALL

Separately, HBUS has also strengthened its processes designed to verify possession of notes held by Third-Party Providers (e.g., a custodian). Possession of promissory notes can be verified electronically or certified by a custodian, and execution of an affidavit is not performed if a note cannot be located and proper ownership verified. HBUS maintains codes on the [REDACTED] servicing system which identifies the custodian or contact that is holding documents on behalf of the Investor. HBUS is authorized via the Servicing Agreements to request documents to address specific servicing functions (foreclosure, consolidation, payoffs). Please note this process does not apply to HBIO as it does not have custodian accounts.

Outside counsel was engaged to review HBUS' process of verifying possession of original promissory notes to ensure that Legal Requirements for standing in foreclosure actions are met. The review focused on HBUS' relationships with its records custodians that maintain possession of original promissory notes. Outside counsel reviewed tri-party custodial agreements between HBUS, the custodian and the investor. The review confirmed that HBUS has the right to obtain possession of the original promissory notes and details the custodians' obligations of safely and securely maintaining the original promissory notes. The agreements also describe the process of retrieving original notes when needed. In many instances, HBUS retrieves the original note where required under state foreclosure law. The custodians' websites were also reviewed and confirmed that the custodians maintain the original notes. As the custodial agreements provide HBUS with the right to obtain possession of the original note and since it was confirmed that the custodians have actual possession of the original notes, outside counsel concluded that HBUS has constructive possession of the original notes and therefore has met the standing requirement to initiate foreclosure proceedings. Outside counsel also reviewed and provided guidance on HBUS' pre-foreclosure original note validation process to ensure that HBUS verifies that the custodian has actual possession of the original note on a loan-by-loan basis prior to referring a loan to foreclosure counsel. Based on this guidance, the business enhanced its pre-foreclosure original note validation procedures which were then reviewed and approved by outside counsel.

Additionally, HBIO and HBUS enhanced their existing procedures and practices as appropriate to comply with Legal Requirements to verify that each is in possession of the original note where legally required before taking legal action. In all judicial states and non-judicial states where possession of the original note is or may be required in order to foreclose, HBIO and HBUS confirm that each, respectively, has possession of the original note and, where required by applicable law, the original note is sent to the Law Firm. If an original note is missing, a Lost Note Affidavit, if required, will be executed and sent to the Law Firm. As appropriate, the terms of the note are validated through an imaged copy of the note, and in non-judicial states, where confirmation of possession of the original note is not required prior to commencement of the foreclosure action, additional quarterly reviews, beginning with the first quarter of 2012, will be conducted by the Records Department to validate possession of these original notes. Outside legal counsel validated the HBIO and HBUS process regarding the possession of the original promissory note.

In summary, HBIO and HBUS have existing document imaging and tracking policies, procedures, and processes to adhere to this requirement of the Order. HBIO and HBUS have enhanced existing policies, procedures, and processes related to the possession of a promissory note by a Third Party. These enhancements ensure adherence to applicable laws requiring verification of the possession of the original note to further comply with the requirements of the Order.

Enhancement to Processes / Programs:

While we believe these existing processes and procedures, enhanced as described above, satisfy these requirements of the Order and, at the present time, further enhancements are not deemed necessary, processes and procedures are subject to on-going review in the ordinary course of business to determine whether revisions or enhancements thereto are appropriate or necessary.

Documents to be submitted with the Action Plan

- Non-Judicial States Lost Note Affidavit-Declaration Procedure ALL
- Default Document Tracking and Retrieval Procedure ALL
- [REDACTED] User Manual CML
- Pre Foreclosure Note Validation Procedure CML (see revised Pre Foreclosure Note Validation Procedure CML below)
- Foreclosure Collateral Retrieval Procedure HMC (see revised Foreclosure Collateral Retrieval Procedure HBUS below)
- Pre-Foreclosure Note Validation User Manual HMC (see revised Pre-Foreclosure Note Validation Procedure HBUS below)
- Foreclosure Collateral Retrieval Procedure CML (see revised Foreclosure Collateral Retrieval Procedure CML below)

Additional documents completed for re-submission of Action Plan

- Judicial States- Lost Note Affidavit Procedures
- Foreclosure Collateral Retrieval Procedure HBUS
- Pre-Foreclosure Note Validation Procedure HBUS
- Pre Foreclosure Note Validation Procedure CML
- Foreclosure Collateral Retrieval Procedure CML

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED] SVP Default Services
- [REDACTED], SVP Default Services, Mortgage Servicing

Article 8(d)

FRB Order Reference:	Article 8(d)	Corresponding OCC Article:	N/A
<i>compliance with supervisory guidance of the Board of Governors, including, but not limited to, the guidance entitled, "Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles," dated October 16, 2008 (SR 08-08/CA 08-11);</i>			
Action Plan			
<p>HNAH has an existing Compliance Risk Management Program in place which ensures compliance with the supervisory guidance of the Board of Governors. However, HNAH will continue to review and enhance this Program as necessary.</p>			
<u>Existing Processes / Programs:</u>			
<p>In order to ensure independence of the compliance staff, compliance staff does not report to business management, but rather report through the HNAH Compliance management structure. Although Compliance staff partner with their business counterparts, the activities and priorities assigned to Compliance staff are solely assigned by Compliance management. Additionally, although business counterparts may be consulted, Compliance staff performance ratings and compensation are solely determined by Compliance management. The HNAH Compliance function is managed by the Regional Compliance Officer ("RCO") who has a dual reporting structure to the HNAH CEO and Head of the HSBC Global Compliance function.</p>			
<p>HNAH has an established TRAC function, a part of HNAH Compliance, which is consistent with the requirements of SR 08-08 and this requirement of the Order. TRAC is responsible for conducting on-going compliance testing and risk assessments independent of the business unit compliance.</p>			
<p>TRAC develops and maintains a Compliance Risk Mitigation Program, which establishes HNAH-wide consistent standards and processes to enable management to proactively identify, measure, monitor, test, and report compliance risks and controls. This information is used to obtain reasonable assurance that HNAH and its subsidiaries are complying with material regulatory requirements and Group Compliance policies and standards (See HSBC - North America Compliance Risk Mitigation Program, pages 36 through 53, which relate specifically to the TRAC Compliance Review Program).</p>			
<p>Additionally, below is a listing of TRAC's specific roles and responsibilities, which are provided in greater detail within the HSBC - North America Compliance Risk Management Program Manual, pages 31 and 32, and include:</p>			
<ul style="list-style-type: none">• developing and maintaining firm-wide compliance risk assessment processes, methodologies and tools;			

- leading the execution and oversight of the General Enterprise-wide Risk Assessment and facilitating and performing quality assurance of the results of the Detail Self Assessment, in conjunction with business line management and business line Compliance Officers;
- developing and maintaining firm-wide compliance monitoring and review programs, policies, procedures, processes and standards;
- annually reviewing business line/Compliance Officer compliance programs and processes, including Compliance Officer issue remediation activities;
- annually reviewing the effectiveness of the HNAH Compliance Risk Management Program;
- administering the Matters Requiring Attention (“MRAs”) tracking and validation program to include tracking of MRAs, validating remediation and reporting MRA status to Group Compliance EXCO, senior management, Risk Governance Committees, and Compliance Committee; and
- maintaining processes to track, escalate, and report material compliance issues and any corrective actions identified through examinations, inspections, compliance monitoring and reviews, or other means.

Enhancement to Processes / Programs:

While we believe these existing processes and procedures satisfy these requirements of the Order and, at the present time, enhancements are not deemed necessary, processes and procedures are subject to on-going review in the ordinary course of business to determine whether revisions or enhancements thereto are appropriate or necessary.

Documents to be submitted with the Action Plan

- HSBC - North America Compliance Risk Mitigation Program
- HSBC – North America Compliance Risk Management Program Manual (see revised HSBC – North America Compliance Risk Management Program Manual below, last revised September 2011)

Additional documents completed for re-submission of Action Plan

- HSBC - North America Compliance Risk Management Program Manual

Key HSBC Contacts for the Action Plan

- [REDACTED]hnston, SVP General Compliance
- [REDACTED] SVP Compliance, HSBC Bank USA, NA

Article 8(e).i

FRB Order Reference:	<i>Article 8(e).i</i>	Corresponding OCC Article:	<i>IV.1.b</i>
<p><i>processes to ensure that all factual assertions made in pleadings, declarations, affidavits, or other sworn statements filed by or on behalf of the Mortgage Servicing Companies are accurate, complete, and reliable; and that affidavits and declarations are based on personal knowledge or a review of the Mortgage Servicing Companies' books and records when the affidavit or declaration so states;</i></p>			
<p>Action Plan</p>			
<p>HBIO and HBUS have processes in place, as described below, that require personnel to review pleadings, declarations, affidavits, or other sworn documents and ascertain whether they are accurate, complete, and reliable. In addition, and as described below, certain process were identified for enhancement to fully comply with this requirement of the Order.</p>			
<p><u>Existing Processes / Programs:</u></p>			
<p>HBIO and HBUS processes are designed to ensure affidavits, declarations and relevant pleadings are carefully reviewed, inspected and validated by experienced staff members within Late Stage Default to ensure all factual assertions are accurate, complete and reliable. Authorized signers are required to conduct a thorough review of the servicing system of record and inspect loan documents in order to gain sufficient personal knowledge (when required by law) to execute affidavits, relevant pleadings and declarations, and other relevant documents. See the following documents for details related to the processes noted above:</p>			
<ul style="list-style-type: none"> • Default Affidavits – Approval and Maintenance Procedure ALL - procedure provides the approval process and maintenance of the state by state affidavits for use in the foreclosure process • Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL - procedure describes the steps followed to perform a quality review on foreclosure affidavits and/or Verified Complaints prior to management execution (signed/notarized) • Foreclosure Affidavit and Verified Complaint Overview Procedure ALL - procedure outlines the process to accurately execute (verified/signed/notarized) foreclosure affidavits and verified complaints • Foreclosure Notary Maintenance and Validation Procedure ALL - procedure provides instructions for Late Stage Default and the Late Stage Default Quality Review Departments on how to maintain the Foreclosure Notary Tracker and conduct regular reviews of current certified HBIO and HBUS Notaries • Notary Matrix Procedure ALL - procedure lists HBIO and HBUS employees authorized to notarize legal documents and the process to verify the employee's notary status • Notary Procedure ALL - procedure outlines the process for notarizing documents 			

- Foreclosure Signing Authority List Maintenance and Validation Procedure ALL - procedure provides instructions for Late Stage Default and the Late Stage Default Quality Review Departments on how to maintain the Foreclosure signer approval tracker and conduct regular reviews of HBIO and HBUS employees signing Foreclosure Documents
- California 1137 Declaration Execution Procedure ALL - procedure describes the process of completing the California 1137 Declaration on accounts in California
- Universe of Documents Matrix ALL - is a Microsoft Excel spreadsheet that outlines, for every state, the documents generally used in foreclosure proceedings

HBIO's and HBUS' procedures address state and local variations in foreclosure requirements, as well as the steps necessary to review and complete affidavits, relevant pleadings and declaration forms.

HBIO and HBUS have been working to enhance policies and procedures for foreclosure processes, and HBIO and HBUS will continue to devote considerable efforts and resources to the governance and controls for its foreclosure function. In October 2010, HBIO and HBUS created a late stage quality review (first line of defence) in order to strengthen quality control measures for the accuracy and completeness of affidavits (See Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL). Affidavits are prepared by Foreclosure Specialists and in some cases local foreclosure counsel, reviewed for accuracy and completeness by the Foreclosure Quality Control team, and then reviewed again for accuracy and completeness by the individual who will execute the affidavit. All the affidavits are reviewed at least twice before the affidavit is forwarded to the Law Firm for use. This late stage quality review focuses on verifying the accuracy of affidavits and verified complaints prior to execution of the documents. The variable data within the documents is compared to the source documents and the applicable systems to confirm accuracy. Evidentiary information must be provided that matches the variable data within the affidavit. If the evidentiary information does not match the variable data, the affidavit must be corrected and re-reviewed. This quality review ensures accuracy of the affidavits.

HBIO and HBUS have further strengthened the quality control process by expanding the scope of their quality review to include relevant pleadings and declarations. These reviews are designed to ensure that factual assertions are accurate and based on personal knowledge of loan documents, financial information and key records from the appropriate source. HBIO and HBUS correct issues noted in these reviews before filing documents, however the issues are tracked prior to correction to facilitate trending and determining employees' incentive eligibility. Affidavit procedures have been strengthened to include a daily meeting wherein the notary administers the applicable notary oath to the affiant and the signers sign the applicable affidavits in the presence of the notary. Affidavits are not signed until they have been reviewed at least twice for accuracy and completeness. As laws, rules, regulations, and practices evolve or change, documents and procedures will be modified accordingly. (See Foreclosure Signing Authority List Maintenance and Validation Procedure ALL).

Additionally, the authorized list of notaries is validated monthly by Compliance. (See Notary Matrix Procedure ALL).

HBIO and HBUS have taken many steps, described above, to verify that all factual assertions made in pleadings, declarations, affidavits, or other sworn statements filed by or on behalf of the Mortgage Servicing Companies or the Bank are accurate, complete, and reliable; and that affidavits and declarations are based on personal knowledge or a review of the Mortgage Servicing Companies' or the Bank's books and records to comply with the Order. As outlined above HBIO and HBUS have a detailed program in place to meet required standards which they will, as a matter of course, continue to monitor, update and report on, as needed.

To create a more robust, consistent process regarding factual assertions made in pleadings, declarations, affidavits, or other sworn statements, HBIO and HBUS engaged outside counsel to review and develop standard affidavit and declaration forms for use in each state and, where required, by local practice of individual counties. Outside counsel has completed its review of judicial states and non-judicial states (except for the District of Columbia, although rules have been published by the Federal register and the comment period has passed, the D.C. City Council is still in the rule making process). HBIO and HBUS will monitor this legislation closely and will create the standard documentation for the District of Columbia once the rules are finalized.

Affidavit procedure manuals were updated on a state-by-state basis, the last of which were drafted as of August 11, 2011, and after internal review and approval by Legal, Compliance and the appropriate business owners, were finalized as of September 12, 2011 (except Maine, which will be finalized and published by October 31, 2011). Each state-specific foreclosure user manual has been developed to provide instructions on various foreclosure procedures including the preparation and execution of affidavits of amount due and indebtedness. The user manual for any given state must be completed prior to the re-start of foreclosures for that state. (See Affidavit of Amount Due - Florida - [REDACTED] User Manual and Affidavit of Amount Due - Florida - [REDACTED] User Manual in their entirety as examples of affidavit procedure manuals).

In addition two training modules, Affidavit Processing and Notary Training, have been developed and were first used for training in June 2011. These two modules focus on business records training and are designed to educate employees executing affidavits on topics such as meeting legal requirements for personal knowledge and notary requirements. Employees who are involved in these two processes completed the training by the end of the third quarter 2011.

Enhancement to Processes / Programs:

HBIO and HBUS engaged outside counsel to review and develop standard affidavit and declaration forms for use in each state and, where required, by local practice of

individual counties. This has not yet been completed for the District of Columbia as the DC City Council is still in the rule making process.

While we believe these existing processes and procedures satisfy the requirements of the Order and, at the present time, enhancements are not deemed necessary, processes and procedures are subject to on-going review in the ordinary course of business to determine whether revisions or enhancements thereto are appropriate or necessary to address changes in applicable Legal Requirements

Documents to be submitted with the Action Plan

- Default Affidavits – Approval and Maintenance Procedure ALL (see revised Default Affidavits – Approval and Maintenance Procedure ALL below)
- Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL (see revised Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL below)
- Foreclosure Affidavit and Verified Complaint Overview Procedure ALL (see revised Foreclosure Affidavit and Verified Complaint Overview Procedure ALL below)
- Foreclosure Notary Maintenance and Validation Procedure ALL (see revised Foreclosure Notary Maintenance and Validation Procedure ALL below)
- Notary Matrix Procedure ALL (see revised Notary Matrix Procedure ALL below)
- Notary Procedure ALL
- Foreclosure Signing Authority List Maintenance and Validation Procedure ALL (see revised Foreclosure Signing Authority List Maintenance and Validation Procedure ALL below)
- California 1137 Declaration Execution Procedure ALL
- Universe of Documents Matrix ALL (see revised Universe of Documents Matrix ALL)
- Affidavit of Amount Due - Florida - [REDACTED] User Manual (see revised Affidavit of Amount Due - Florida - [REDACTED] User Manual below)
- Affidavit of Amount Due - Florida - [REDACTED] User Manual (see revised Affidavit of Amount Due - Florida - [REDACTED] User Manual below)

Additional documents completed for re-submission of Action Plan

- Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL
- Foreclosure Notary Maintenance and Validation Procedure ALL
- Default Affidavits – Approval and Maintenance Procedure ALL
- Foreclosure Affidavit and Verified Complaint Overview Procedure ALL
- Notary Matrix Procedure ALL
- Foreclosure Signing Authority List Maintenance and Validation Procedure ALL
- Universe of Documents Matrix ALL
- Affidavit of Amount Due - Florida - [REDACTED] User Manual CML
- Affidavit of Amount Due - Florida - [REDACTED] User Manual CML

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED] SVP Default Services

Article 8(e).ii

FRB Order Reference:	<i>Article 8(e).ii</i>	Corresponding OCC Article:	<i>IV.1.c</i>
<p><i>processes to ensure that affidavits filed in foreclosure proceedings and other foreclosure-related documents are executed and notarized in accordance with applicable state legal requirements, including jurat requirements;</i></p>			
<p>Action Plan</p> <p>Although HBIO and HBUS have processes and procedures in place to guide the execution and notarization, procedures for affidavits and other foreclosure-related documents have been strengthened to better ensure execution and notarization is in accordance with applicable state legal and jurat requirements, in accordance with the requirements of the Order.</p> <p><u>Existing Processes / Programs:</u></p> <p>In mid-October 2010, HBIO and HBUS implemented revised policies and procedures to more clearly document affidavit delivery, preparation, verification, management review and signing, and notarization practices. For example, Late Stage Default now holds daily meetings for signers and notaries during which notaries administer the notary oath to the affiants as appropriate, the signers sign the applicable affidavits in the presence of the notary, and the notaries notarize in the presence of the affiant. Please see the following documents which evidence the procedures noted above:</p> <ul style="list-style-type: none"> • Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL - procedure describes the steps followed to perform a quality review on foreclosure affidavits and/or Verified Complaints prior to management execution (signed/notarized) • Foreclosure Affidavit and Verified Complaint Overview Procedure ALL - procedure outlines the process to accurately execute (verified/signed/notarized) foreclosure affidavits and verified complaints • Foreclosure Notary Maintenance and Validation Procedure ALL - procedure provides instructions for Late Stage Default and the Late Stage Default Quality Review Department Departments on how to maintain the Foreclosure Notary Tracker and conduct regular reviews of current certified HBIO and HBUS Notaries • Foreclosure Policy ALL - provides guidelines regarding Real Estate Foreclosure • Notary Matrix Procedure ALL - procedure lists HBIO and HBUS employees authorized to notarize legal documents and the process to verify the employee's notary status • Notary Procedure ALL - procedure outlines the process for notarizing documents <p>HBIO and HBUS notaries and corporate signers who service foreclosure functions have certified that they have read these procedures, they understand HBIO's and HBUS' guidelines regarding these procedures, as well as their responsibilities as a notary and/or a signer, and that they will adhere to these procedures as required.</p>			

Recertification is required on an annual basis.

HBIO and HBUS maintain a list of approved signers and notaries that is validated monthly by Compliance. The business administers a notary verification process designed to ensure notaries are in good standing with the state and signers are in good standing with HBIO and HBUS. (See Foreclosure Notary Maintenance and Validation Procedure ALL)

Among other things, HBIO's and HBUS' enhanced processes require proper witnessing of execution by the notaries through daily meetings between notaries and signers; a personal understanding of relevant notary guidelines through certification of procedure review by notaries, including legal and jurat requirements; and that (i) only those who have certified their knowledge and understanding of appropriate notary practices are performing notarizations and (ii) only authorized signers are signing affidavits, through maintenance of a list of notaries and corporate signers (See Foreclosure Signing Authority List Maintenance and Validation Procedure ALL, pages 1 through 3, for step by step process).

Enhancement to Processes / Programs:

While we believe these existing processes and procedures satisfy the requirements of the Order and, at the present time, enhancements are not deemed necessary, processes and procedures are subject to on-going review in the ordinary course of business to determine whether revisions or enhancements thereto are appropriate or necessary to address changes in applicable state legal requirements, including jurat requirements.

Documents to be submitted with the Action Plan

- Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL (see revised Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL below)
- Foreclosure Affidavit and Verified Complaint Overview Procedure ALL (see revised Foreclosure Affidavit and Verified Complaint Overview Procedure ALL below)
- Foreclosure Notary Maintenance and Validation Procedure ALL (see revised Foreclosure Notary Maintenance and Validation Procedure ALL below)
- Foreclosure Policy ALL
- Notary Matrix Procedure ALL (see revised Notary Matrix Procedure ALL below)
- Notary Procedure ALL
- Foreclosure Signing Authority List Maintenance and Validation Procedure ALL (see revised Foreclosure Signing Authority List Maintenance and Validation Procedure ALL below)

Additional documents completed for re-submission of Action Plan

- Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL

- Foreclosure Notary Maintenance and Validation Procedure ALL
- Foreclosure Signing Authority List Maintenance and Validation Procedure ALL
- Foreclosure Affidavit and Verified Complaint Overview Procedure ALL
- Notary Matrix Procedure ALL

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED], SVP Deputy General Counsel, CML
- [REDACTED] SVP Default Services

Article 8(e).iii

FRB Order Reference:	Article 8(e).iii	Corresponding OCC Article:	IV.1.e
<p><i>processes to ensure that the Mortgage Servicing Companies have properly documented ownership of the promissory note and mortgage (or deed of trust) under applicable state law, or are otherwise a proper party to the action (as a result of agency or other similar status) at all stages of foreclosure and bankruptcy litigation; and</i></p>			
<p>Action Plan</p>			
<p>HBIO and HBUS have existing processes, as described below, to ensure the business has properly documented ownership of the promissory note and mortgage (or deed of trust) under applicable state law or are otherwise a proper party to the action at all stages of foreclosure and bankruptcy litigation.</p>			
<p><u>Existing Processes / Programs:</u></p>			
<p>HBIO and HBUS have existing processes designed to ensure proper documentation of promissory note and mortgage ownership. HBIO and HBUS maintain a file containing the original collateral, as well as imaged copies of these documents in an imaging repository for loans held in its possession. Loans held by a custodian are tracked by HBUS, and processes are designed to verify possession of a note before legal action is taken.</p>			
<p>HBIO and HBUS image loan documentation upon origination or acquisition of a loan. When HBUS originates a loan, the original documentation is imaged and stored in a secure location. HBIO and HBUS strictly monitor the documents held in these secure locations, and limit the reasons for removing these documents from their possession. This process allows HBIO and HBUS, respectively, to be confident it is in possession of the notes it holds. The same process was in place for loans that were acquired by HBIO and HBUS, however, no further loans are currently being acquired by HBIO and HBUS. Despite no planned future loan acquisitions, no plan currently exists to delete imaged loan documentation of previously acquired HBIO and HBUS loans. Multiple groups can view the imaged documentation, which is maintained on an imaging repository for the life of the loan, throughout the foreclosure or bankruptcy process. Please see the following documents which evidence the procedures noted above:</p>			
<ul style="list-style-type: none"> • Foreclosure Policy ALL – policy provides guidelines regarding Real Estate Foreclosure; policy must be followed to ensure documented history is maintained on accounts, quality customer service, and compliance with applicable laws • Collateral Policy ALL - policy provides guidelines regarding collateral documentation and verification requirements • █████ User Manual CML - manual provides the process for imaging documentation • Non-Judicial States Lost Note Affidavit-Declaration Procedure ALL - procedure outlines the steps for the Records Administration Department when processing a 			

Lost Note Affidavit or Declaration of Lost Note for non judicial states

- Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL - procedure describes the steps followed to perform a quality review on foreclosure affidavits and/or verified complaints prior to management execution (signed/notarized)
- Foreclosure Review Group Re-Review Procedure CML - procedure provides instructions to the Foreclosure Review Group to review accounts for eligibility of removal from the moratorium on foreclosure activity specific to [REDACTED] (servicing systems) accounts in the C and D populations
- Foreclosure Review Group C&D Re-Review Procedure HBUS - procedure provides instructions to the Foreclosure Review Group to review accounts for eligibility of removal from the moratorium on foreclosure activity specific to [REDACTED] (servicing system) accounts in the C and D populations.
- CML FC Review Procedures Brandon External - procedure outlines the external lien release process
- CML FC Review Procedures Lien Release Internal_- procedure outlines the internal lien release procedures
- HBUS FC CML Assignments Procedures Records Internal - procedure outlines the internal notes procedures
- [REDACTED] Indexing Regulatory Foreclosure Documents Procedure CML - procedure outlines the steps for the [REDACTED] Indexing of Regulatory Foreclosure documents
- Pre-Foreclosure Note Validation Procedure CML - procedure outlines how HSBC validates possession of the original note prior to commencing a foreclosure action

If an original note is missing, a Lost Note Affidavit, if required by applicable law, will be executed and sent to the Law Firm. As appropriate, the terms of the note are validated through an imaged copy of the note. In non-judicial states, where confirmation of possession of the original note is not required prior to commencement of the foreclosure action, additional quarterly audits, beginning with the first quarter of 2012, will be conducted by the Records Department to validate possession of these original notes. Outside legal counsel reviewed and approved HBIO's and HBUS' procedures for determining each has possession of the original promissory note. (See Non-judicial States Lost Note Affidavit-Declaration Procedure ALL and Judicial States-Lost Note Affidavit Procedures)

Management also enhanced its existing procedures and practices to comply with applicable laws to verify that it is in possession of the original note before taking legal action. In all judicial states and non-judicial states where possession of the original note is or may be required by law in order to foreclose, HBIO and HBUS confirms that it has possession of the original note through verification at the vault and, where required by applicable law, the original note is sent to the Law Firm. Prior to the enhancements to its existing procedures the Foreclosure Team would request that the Records Team deliver to the foreclosure Law Firm the original note as required in those judicial and non-judicial original document states. Under the enhanced procedures the following processes are in place:

- Validation of possession of each note (as required in applicable judicial states and

non-judicial original document states) and forwarding to the appropriate foreclosure Law Firm is required.

- Validation of the original note via an image of the original note is required in the noted applicable states (only non-judicial states where the original note is not required to start foreclosure).
- A sampling to confirm possession of the original note will be conducted on a quarterly basis beginning the first quarter of 2012 for those loans validated via an image copy of the original.
- Verify possession of notes held by Third Parties
- Centralized execution and tracking of any Lost Note Affidavit by the Records Department.
- Centralized tracking by the Records Department to ensure the return of the original Note delivered to a foreclosure Law Firm where the foreclosure action has been completed or terminated.

HBUS has also strengthened its processes designed to verify possession of notes held by Third-Party Providers (i.e., a custodian). Possession of promissory notes can be verified electronically or certified by a custodian. HBUS maintains codes on the [REDACTED] servicing system which identifies the custodian or other Third Party Provider that is holding documents on behalf of the Investor. HBUS is authorized via the Servicing Agreements to request documents to address specific servicing functions (foreclosure, consolidation, payoffs). Outside legal counsel has reviewed and approved the HBUS procedures for determining it has possession of the original promissory note to ensure compliance with the appropriate Legal Requirements associated with the verification of documents held by custodians or other Third Party Providers. Please note this process does not apply to HBIO as it does not have custodian accounts.

Also see Third-Party Management Action Plan Article 6(d) for existing processes and procedures to ensure the accuracy of all documents filed on behalf of HBIO and HBUS in any judicial or non-judicial foreclosure proceeding, related bankruptcy proceeding, or in other foreclosure-related litigation.

HBIO and HBUS engaged outside counsel to conduct a review of bankruptcy procedures, processes, and training materials for document review, execution and notarization and note ownership in connection with bankruptcy proceedings. This review was completed as of August 11, 2011, with the report delivered on August 18, 2011 (see MEMORANDUM Bankruptcy Report. See pages 4 through 9 of the MEMORANDUM Bankruptcy Report for Observations and Suggestions). In summary, the report recommends that HBIO and HBUS take steps, if not already taken, to improve its overall efficiency, and safeguards, with respect to its bankruptcy process, including:

- hiring of additional staff to comply with increased workflow to service bankruptcy loans
- continuing with its ongoing process of increasing oversight and monitoring of

- Third Party Providers (initiative already under way as described below)
- enhancing its electronic database search practices for bankruptcy filings (initiative already under way)
 - implementing additional quality control and risk reduction procedures (initiative already under way as described below)
 - creating additional controls around pleadings and executed documents

Enhancement to Processes / Programs:

Based on the review related to bankruptcy procedures, processes, and training materials completed by outside counsel noted above, HBIO and HBUS have established a dedicated workstream to make enhancements to bankruptcy policies, procedures, processes, and training materials. These enhancements are expected to be completed within the fourth quarter of 2011 (see attachment Bankruptcy Workstream September 7th, 2011 in its entirety). Business requirements for specific technology enhancements for the Bankruptcy Workstream are expected to be completed by November 30, 2011, with the resulting technology implementation target dates to be received in Q1 2012. In addition to the dedicated Bankruptcy Workstream, other workstreams and functional groups, including MIS, Third Party Management, and Training, will participate in the enhancement of bankruptcy-related processes and documents.

Also in response to the review performed by outside counsel, HBIO and HBUS are evaluating Bankruptcy staff needs as part of the Bankruptcy Workstream, and are now in the process of hiring 30 additional employees by the end of the year. These employees will be supplementing the existing Quality Control team as well as deployed to existing Bankruptcy processes to handle increased volumes and process changes.

Documents to be submitted with the Action Plan

- Foreclosure Policy ALL
- Collateral Policy ALL
- █████ User Manual CML
- Non-Judicial States Lost Note Affidavit-Declaration Procedure ALL
- Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL (see Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL below)
- Foreclosure Review Group C&D Re-Review Procedure CML (see revised Foreclosure Review Group Re-Review Procedure CML below)
- CML FC Review Procedures Brandon External
- CML FC Review Procedures Lien Release Internal
- HBUS FC CML Assignments Procedures Records Internal
- █████ Indexing Regulatory Foreclosure Documents Procedure CML
- Pre Foreclosure Note Validation Procedure CML (see revised Pre Foreclosure Note Validation Procedure CML below)

Additional documents completed for re-submission of Action Plan

- MEMORANDUM Bankruptcy Report
- Bankruptcy Workstream September 7th, 2011
- Foreclosure Review Group C&D Re-Review Procedure HBUS
- Judicial States- Lost Note Affidavit Procedures
- Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL
- Pre Foreclosure Note Validation Procedure CML
- Foreclosure Review Group Re-Review Procedure CML

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED] SVP Default Services

Article 8(e).iv

FRB Order Reference:	Article 8(e).iv	Corresponding OCC Article:	IV.1.f
<i>processes to ensure that a clear and auditable trail exists for all factual information contained in each affidavit or declaration, in support of each of the charges that are listed, including whether the amount is chargeable to the borrower or claimable by the investor;</i>			
Action Plan			
<p>HBIO and HBUS have existing processes (described below) which are designed to ensure that a clear and auditable trail exists for all factual information contained in each affidavit or declaration. Additionally, HBIO and HBUS are enhancing processes and controls for validation of the charges that will be listed in the affidavits or declarations to meet this requirement of the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>When preparing affidavits and/or declarations, rather than relying solely on information from the servicing system of record, HBIO and HBUS require employees to have personal knowledge of certain loan documentation based on applicable law. To ensure a clear and auditable trail exists, all documentation required to complete and execute an affidavit or declaration is imaged and retained on the imaging system to support the factual assertions in the documents, including the amounts chargeable to the borrower or claimable by the investor.</p>			
<p>As a general rule, if data relevant to a legal filing is static (i.e., property address), that information is retained in the system of record. If data relevant to a legal filing is dynamic (i.e., SCRA status, amount due on a specific date, etc.), screen images of that information are printed and retained in the [REDACTED] system where they can be accessed at any point in the future. See the following documents to support the processes noted above:</p>			
<ul style="list-style-type: none">• Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL - procedure describes the steps followed to perform a quality review on foreclosure affidavits and/or Verified Complaints prior to management execution (signed/notarized)• California 1137 Declaration Execution Procedure ALL - procedure describes the process of completing the California 1137 Declaration on accounts in California• Affidavit of Amount Due - Florida - [REDACTED] User Manual - user manual provides instructions on how to confirm and obtain information to complete replacement Affidavits of Amount Due for Florida [REDACTED] accounts that have had an Affidavit of Amount Due executed and are pre-judgment or without sale date• Affidavit of Amount Due - Florida - [REDACTED] User Manual - user manual provides instructions on how to confirm and obtain information to complete			

replacement Affidavits of Amount Due for Florida [REDACTED] (HMS – [REDACTED] CLMS – [REDACTED]) accounts that have had an Affidavit of Amount Due executed and are pre-judgment or without sale date
The Quality Reviews referenced above are performed by the Operations Quality Team, which is part of the first line of defence.

See Affidavit of Amount Due – Florida – [REDACTED] User Manual page 8 for the following referenced procedural example:

In regards to evidence requirements, print and print to image (to the Regulatory Foreclosure folder in [REDACTED] the following (also indicated in the steps below):



The phrase “print to image” indicates that a copy is retained in the Image platform as opposed to printing a physical hard copy. Documents must be saved to the imaging system as evidence for the audit trail. The Affidavit of Amount Due – Florida – [REDACTED] User Manual, pages 8 – 17, covers each area of the affidavit, specifies how to complete each section of the AOI For example – item #6 on page 10 of the user manual specifies the steps required to complete the originating entity of the AOI. This information is taken from the imaged copy of the note. Additionally, beginning on page 18, the user manual outlines how and what fees must be waived.

HBIO and HBUS management continue to enhance their foreclosure affidavit and declaration processes and have taken aggressive steps to resolve any identified inconsistencies. HBIO and HBUS will continue to place considerable effort and resources to ensure strong governance and controls are working effectively in the Residential Mortgage Servicing foreclosure function. HBIO has elected at this time to waive fees on borrower’s accounts until such time when technology enhancements are available to ensure the accuracy of non-system controlled fees assessed, such as a Broker Price Opinion (“BPO”). HBUS is still collecting fees as the HBUS system allows for better control required to maintain affidavit evidence.

Accordingly, HBIO and HBUS have taken steps to preserve the audit trail for all

factual information contained in affidavits and declarations. HBIO and HBUS enhanced their processes and updated related policies, procedures, and training to ensure the accuracy of all documents filed or otherwise utilized on behalf of the Mortgage Servicing Companies, the Bank, or owners of mortgages in judicial and non-judicial foreclosure proceedings, including procedures for document preparation, review, execution and notarization, note ownership and right to foreclose at the time the foreclosure action is commenced. These enhancements and updates [(some of which are addressed in more detail in the Action Plans for Articles 8(c) and 8(e)(i)-(iii))] include:

- Additional guidance for requirements related to acquiring knowledge of information contained in the documents filed in foreclosure proceedings and additional procedures to ensure accuracy of the documents prior to initiating foreclosure, including but not limited to:
 - Documentation sufficient to establish ownership (See Default Document Tracking, Retrieval Procedure ALL, and Collateral Policy ALL in their entirety)
 - Verification of the possession of original note
 - Execution of a Lost Note Affidavit, if required, upon determination that original note is missing
 - Verification of the legal entity
 - Right to foreclose at the time foreclosure action is commenced
 - Validation of the plaintiff for foreclosure action
 - Review of Department of Defense website
 - Review of the imaged Breach Letter
- For judicial foreclosure states, developed standardized foreclosure affidavits of indebtedness (AOI) and developed instructions and procedures for verifying information as well as signing and notarizing documents;
- For non-judicial foreclosure states, HNAH Legal has reviewed and developed appropriate forms and instructions (except District of Columbia is under review). HBIO and HBUS have been reviewing and modifying forms where necessary and developing instructions and procedures for the review, signing and notarization of documents where applicable;
- A foreclosure checklist is used to guide preparation and quality control of the AOI; the checklist and corresponding evidence is imaged and retained;
- Completion of user manuals prior to re-starting or resuming foreclosures in a given state;
- Development and implementation of Business Records training which the employees are required to complete prior to executing any foreclosure affidavit; and
- Implementation of quality reviews.

HBIO's and HBUS' existing audit trail and imaging procedures, along with procedural enhancements listed above, ensure that a clear and auditable trail exists.

Also see Third-Party Management Action Plan Article 6(d) for existing processes and procedures to ensure the accuracy of all documents filed on behalf of HBIO and HBUS in any judicial or non-judicial foreclosure proceeding, related bankruptcy proceeding, or in other foreclosure-related litigation. See the following documents to

support the audit trail and imaging processes noted above:

- [REDACTED] User Manual CML - manual provides the process for imaging documentation
- CML FC Review Procedures Brandon External – procedure outlines the external lien release process
- CML FC Review Procedures Lien Release Internal – procedure outlines the internal lien release process
- HBUS FC CML Assignments Procedures Records Internal_- procedure outlines the internal notes procedures
- [REDACTED] Indexing Regulatory Foreclosure Documents Procedure CML - procedure outlines the steps for the [REDACTED] Indexing of Regulatory Foreclosure documents

Foreclosure affidavit procedure manuals were updated on a state-by-state basis, the last of which were drafted as of August 11, 2011, and after internal review and approval by Legal, Compliance and the appropriate business owners, were finalized as of September 12, 2011 (except Maine, which will be finalized and published by October 31, 2011 and for the District of Columbia where rules have been published in the Federal register and the comment period has passed, the D.C. City Council is still in the rule making process. HBIO and HBUS will monitor this pending legislation closely and will create the standard documentation for the District of Columbia once the rules are finalized).

Each state-specific foreclosure user manual has been developed to provide instructions on various foreclosure procedures including affidavits of amount due and indebtedness. The user manual for any given state must be completed prior to the re-start of foreclosures for that state. (See Affidavit of Amount Due - Florida - [REDACTED] User Manual and Affidavit of Amount Due - Florida - [REDACTED] User Manual for samples)

Training was developed by the business for affidavit signers regarding the creation and maintenance of business records and HNAH Legal developed deposition training for potential witnesses in foreclosure actions. Said training has been conducted for appropriate personnel and will occur in the future at least annually.

HBIO and HBUS engaged outside counsel to conduct a review of bankruptcy procedures, processes, and training materials for document review, execution and notarization and note ownership in connection with bankruptcy proceedings. This review was completed as of August 11, 2011, with the report delivered on August 18, 2011 (see MEMORANDUM Bankruptcy Report. See pages 4 through 9 of the MEMORANDUM Bankruptcy Report for Observations and Suggestions). In summary, the report recommends that HBIO and HBUS make certain enhancements or changes, to the extent, not already taken, to certain bankruptcy processes, including:

- hiring of additional staff to comply with increased workflow to service bankruptcy loans
- continuing with its ongoing process of increasing oversight and monitoring of third-party vendors (initiative already well under way as described below)

- enhancing its electronic database search practices for bankruptcy filings (initiative already under way as describe below)
- implementing additional quality control and risk reduction procedures (initiative already under way as described below)
- creating additional controls around pleadings and executed documents

Enhancement to Processes / Programs:

Based on the review related to bankruptcy procedures, processes, and training materials completed by outside counsel noted above, HBIO and HBUS have established a dedicated workstream to make enhancements to bankruptcy policies, procedures, processes, and training materials. These enhancements are expected to be completed within the fourth quarter of 2011 (see attachment Bankruptcy Workstream September 7th, 2011 in its entirety). Business requirements for specific technology enhancements for the Bankruptcy Workstream are expected to be completed by November 30, 2011, with the resulting technology implementation target dates to be received in Q1 2012. In addition to the dedicated Bankruptcy Workstream, other workstreams and functional groups, including MIS, Third Party Management, and Training, will participate in the enhancement of bankruptcy-related processes and documents.

HBIO and HBUS engaged outside counsel to review and develop standard affidavit and declaration forms for use in each state and, where required, by local practice of individual counties. This has not yet been completed, except as mentioned above for Maine and the District of Columbia.

Documents to be submitted with the Action Plan

- Foreclosure Policy ALL
- Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL (see revised Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL below)
- [REDACTED] User Manual CML
- California 1137 Declaration Execution Procedure ALL
- CML FC Review Procedures Brandon External
- CML FC Review Procedures Lien Release Internal
- HBUS FC CML Assignments Procedures Records Internal
- [REDACTED] Indexing Regulatory Foreclosure Documents Procedure CML
- Universe of Documents Matrix ALL (see revised Universe of Documents Matrix ALL below)
- Affidavit of Amount Due - Florida - [REDACTED] User Manual (see revised Affidavit of Amount Due - Florida - [REDACTED] User Manual below)
- Affidavit of Amount Due - Florida - [REDACTED] User Manual (see revised Affidavit of Amount Due - Florida - [REDACTED] User Manual below)
- Default Document Tracking and Retrieval Procedure ALL
- Collateral Policy ALL

Additional documents completed for re-submission of Action Plan

- MEMORANDUM Bankruptcy Report
- Foreclosure Affidavit and Verified Complaint Quality Review Procedure ALL
- Universe of Documents Matrix ALL
- Affidavit of Amount Due - Florida - [REDACTED] User Manual CML
- Affidavit of Amount Due - Florida - [REDACTED] User Manual CML

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED] SVP Default Services
- [REDACTED], SVP Deputy General Counsel, CML

Article 8(f)

FRB Order Reference:	Article 8(f)	Corresponding OCC Article:	IX.1.k
<i>policies and procedures to ensure that payments are credited in a prompt and timely manner; that payments, including partial payments to the extent permissible under the terms of applicable legal instruments, are applied to scheduled principal, interest, and escrow before fees, and that any misapplication of borrower funds is corrected in a prompt and timely manner;</i>			
Action Plan			
<p>As described below, HBIO and HBUS have policies and procedures in place that address crediting payments in a prompt and timely manner and correct the misapplication of borrower funds. For all loans except for partial reinstatements (only applicable for HBIO), HBIO and HBUS have policies and procedures that apply payments generally to scheduled principal, interest, and escrow before fees. For loans serviced on the ██████████ (██████ – HBIO - HFC and Beneficial Portfolio) system payments are applied to the current interest due first before application to principal (as per the Note). Any interest shortage is deferred. HBIO and HBUS also follow a widely accepted industry practice of holding partial payments in suspense accounts until enough funds are received from a borrower to constitute a full payment, at which point the payment is applied to the principal, interest and escrow, before fees.</p>			
<u>Existing Processes / Programs:</u>			
<p>Both HBIO and HBUS practices are governed by two comprehensive policies which include the Payment Processing (Cashiering) Policy ALL and the Payment Reversal Policy ALL. These policies guide employees on payment application exceptions, correction of misapplied payments, and ensure that payments are applied in accordance with the applicable contract.</p>			
<p>HBIO and HBUS have policies and procedures in place that address crediting payments in a prompt and timely manner and correcting the misapplication of borrower funds. For all loans except for partial reinstatements (for partial reinstatement, which only apply to HBIO, taxes and insurance are satisfied first), HBIO and HBUS have policies and procedures that apply payments to scheduled principal, interest, and escrow before fees.</p>			
<p>HBIO and HBUS have systemic controls to ensure appropriate and timely application of funds. HBIO and HBUS have an established payment hierarchy for application of funds and systems are periodically tested to ensure automated controls are working as designed. In addition, Quality Control processes are in place to ensure manual payments are applied utilizing the correct effective date and are applied in accordance with the payment hierarchy, which includes both full and partial reinstatements. On a monthly basis, Payment Services completes a review of approximately 800-900</p>			

manual payment transactions to ensure compliance with HBIO and HBUS policies. Results are tracked through a database and reporting is provided to management for review and action as needed on a monthly basis.

HBIO and HBUS also follow a widely accepted industry practice of holding partial payments in suspense accounts until enough funds are received from a borrower to constitute a full payment, at which point the payment is applied to the principal, interest and escrow, before fees. The holding of partial payments is a common mortgage practice utilized throughout the industry. More specifically, this practice is facilitated through the [REDACTED] servicing system utilized by many mortgage service providers. This process is also documented within the Note provided to customers.

The following content was copied from a Fannie Mae Mortgage / Deed of Trust as evidence of and clarification of the industry practice noted above: "Section 15. Lender may return any payment or partial payment if the payment or partial payments are insufficient to bring the Loan current. Lender may accept any payment or partial payment insufficient to bring the Loan current, without waiver of any rights hereunder or prejudice to its rights to refuse such payment or partial payments in the future, but Lender is not obligated to apply such payments at the time such payments are accepted. If each Periodic Payment is applied as of its scheduled due date, then Lender need not pay interest on unapplied funds. Lender may hold such unapplied funds until Borrower makes payment to bring the Loan current. If Borrower does not do so within a reasonable period of time, Lender shall either apply such funds or return them to Borrower. If not applied earlier, such funds will be applied to the outstanding principal balance under the Note immediately prior to foreclosure. No offset or claim which Borrower might have now or in the future against Lender shall relieve Borrower from making payments due under the Note and this Security Instrument or performing the covenants and agreements secured by this Security Instrument."

The guidance from the Fannie Mae Mortgage/Deed of Trust does not apply to loans serviced on the [REDACTED] portfolio. Payments received on [REDACTED] are applied directly to the customer's accounts as there is no suspense or unapplied functionality. Payment application for [REDACTED] complies with the terms of the loan agreement.

HBIO has an established policy to assist borrowers by offering partial reinstatements of loans (CML only). Payments for partially reinstated loans are applied to past-due taxes and insurance before principal and interest. Additionally, when the customer is sent the reinstatement letter, it is disclosed within the letter that past due taxes and insurance are paid first. This payment hierarchy and application of funds has been reviewed and approved by HBIO Management.

The CML Reinstatement process was approved through the Bi-Weekly Retail Operations Governance Committee ("BROG"). The BROG is comprised of senior leadership that is responsible for ensuring that business models and strategies are

established, approved, documented, and all governing policies and procedures are in place to support business operations. The BROG is intended to ensure that certain functions within business unit operations are managed in accordance with all applicable laws and regulations, Group standards, applicable Functional Instructional Manuals, and safe and sound business practices. External counsel and HSBC internal legal counsel reviewed the CML reinstatement and provided legal guidance.

Enhancement to Processes / Programs:

While we believe these existing processes and procedures satisfy these requirements of the Order and, at the present time, enhancements are not deemed necessary, processes and procedures are subject to on-going review in the ordinary course of business to determine whether revisions or enhancements thereto are appropriate or necessary.

Documents to be submitted with the Action Plan

- Payment Processing (Cashiering) Policy ALL (see revised Payment Processing (Cashiering) Policy ALL below)
- Payment Reversal Policy ALL

Additional documents completed for re-submission of Action Plan

- Disbursements Project Plan 10142011
- Payment Processing (Cashiering) Policy ALL

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED] SVP Servicing Administration, HSBC Consumer and Mortgage Lending

Article 8(g)

FRB Order Reference:	<i>Article 8(g)</i>	Corresponding OCC Article:	<i>N/A</i>
<i>compliance with contractual obligations to the owners of the mortgages in the Servicing Portfolio;</i>			
Action Plan			
<u>Existing Processes / Programs:</u>			
<p>With respect to HBIO, the vast majority of loans serviced are owned by HBIO and therefore there are no contractual obligations to owners of the related mortgages. With respect to the one investor for which HBIO does service loans, the investor has agreed to have the loans serviced in accordance with HBIO servicing policies, procedures, and guidelines referred to in this Article and the control processes described in the Action Plans are adhered to with respect to both the HBIO owned and investor segments of the portfolio.</p> <p>With respect to HBUS, certain loans are serviced for Fannie Mae and Freddie Mac and other investors. For these loans, HBUS follows the standard GSE guidelines or other investor guidelines for servicing loans as well as contractual obligations. As part of the Investor Change Working Group (“ICWG”), changes to the GSE servicing guidelines are reviewed, business process changes are implemented and the resulting changes are tested.</p> <p>Changes to GSE and investor guidelines, requirements and contractual obligations are collected, monitored and assessed for impact by the ICWG Manager. Investor Accounting, the ICWG Manager, and the Director of Loss Mitigation for Mortgage Corporation hold weekly meetings to assess the impact and plan the implementation strategy for such GSE and other investor changes. See the Implementation Section on page 2 of the attached Investor Changes Implementation Procedure ALL document for additional details regarding monitoring and implementation of changes to GSE and other investor contractual obligations.</p>			
<u>Enhancement to Processes / Programs:</u>			
<p>While we believe these existing processes and procedures satisfy these requirements of the Order and, at the present time, enhancements are not deemed necessary, processes and procedures are subject to on-going review in the ordinary course of business to determine whether revisions or enhancements thereto are appropriate or necessary.</p>			
Documents to be submitted with the Action Plan			
Not Applicable			

Additional documents completed for re-submission of Action Plan

- Investor Changes Implementation Procedure ALL

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO

Article 8(h)

FRB Order Reference:	Article 8(h)	Corresponding OCC Article:	IV.1.h
<p><i>compliance with the contractual limitations in the underlying mortgage note, mortgage, or other customer authorization with respect to the imposition of fees, charges and expenses, and compliance with Legal Requirements concerning the imposition of fees, charges, and expenses;</i></p>			
<p>Action Plan</p> <p>Policies and procedures exist that govern the fees, expenses, and other charges imposed on the borrower and ensure that they are in accordance with the terms of the underlying mortgage note, mortgage, or other customer authorization and in compliance with all applicable Legal Requirements and supervisory guidance. However, HBIO and HBUS are enhancing processes to strengthen controls relative to the imposition of charges to the borrower and will modify policies and procedures, as necessary, to reflect the enhancements to the processes.</p> <p><u>Existing Processes / Programs:</u></p> <p>HBIO and HBUS have existing processes that are designed to ensure that fees, expenses, and other charges imposed on the borrower are assessed in accordance with the Legal Requirements, supervisory guidance and contractual limitations or other customer authorization and supervisory guidance. However, as noted below, HBIO and HBUS reviewed these processes in order to enhance quality controls.</p> <p>Late charges and NSF fees are controlled and assessed through the [REDACTED] and [REDACTED] systems at the account level. For example, when the payment is applied to these systems, the system will automatically apply a late fee based on the Legal Requirements regarding late fees. (See Late Fee Enforcement Thresholds Policy ALL and Late Charge (Fee) Matrix Procedure MS). The Late Charge (Fee) Matrix Procedure [REDACTED] details state statutes governing the assessment and collection of late charges on loans originated by state chartered lenders. HBIO has elected at this time to waive all fees on borrower's accounts until such time as technology enhancements are available to ensure the accuracy of non-system controlled fees assessed such as a BPO. HBUS is still collecting fees as the HBUS system allows for better control required to maintain affidavit evidence.</p> <p>HBIO and HBUS generally follow the Fannie Mae Fee Guidelines. HBUS utilizes an automated system for processing fees and costs (New Invoice) which assesses the adherence to the Fannie Mae guidelines. Exceptions to FNMA guidelines are reviewed and approved by authorized personnel. Any amounts exceeding the FNMA guidelines are reviewed and approved by Foreclosure Unit Manager and Department Managers. This process is facilitated through New Invoice.</p> <p>Representatives authorized to review and process fees and costs are monitored for</p>			

adherence to policies and procedures. Unit Managers are required to conduct a review of 20 accounts per representative per month. HBIO and HBUS reviewed existing processes to identify any necessary enhancements to preventive and detective controls (as well as enhancements to quality controls) as applicable to ensure all assessment of fees, expenses, and other charges are in accordance with the applicable Legal Requirements, supervisory guidance, contractual limitations or other customer authorization. As of September 12, 2011, an RCA review was completed and identified controls that needed improvement. To address the controls in the RCA review a project plan was created (see Disbursements Project Plan 10142011 and RCA Report for Fees and Disbursements in their entirety) to enhance processes including the frequency of fee assessments, documentation supporting relevant services performed, and systemic controls designed to ensure duplicate charges are not assessed.

The planned enhancements, noted above and further described below, will provide assurance in addition to existing procedures that HBIO and HBUS are in compliance with contractual and legal limitations, customer authorization, as well as supervisory guidance, relative to the imposition of fees, charges, and expenses to the borrower.

Enhancement to Processes / Programs:

Since completion of the review noted above, HBIO and HBUS are in the process of assessing how controls requiring enhancements may impact changes to the current technology environment. As such, a plan for implementation will be developed based on the quantity of controls requiring enhancement. Depending on the quantity of controls requiring enhancements, implementation efforts will commence in the fourth quarter of 2011 and may continue into 2012.

HBIO and HBUS are enhancing its process and controls for assessing fees and costs. The following key deliverables and timelines have been established for implementing enhancements:

- Publish Secured Default Fees and Cost Policy which outlines use of FNMA guidelines and provides guidance on recoverable and non recoverable fees and costs – completed September 28, 2011
- Update controls and business rules within Invoice Management, which is the tool used to ensure invoices meet HBIO and HBUS fee guidelines - October 14, 2011
- Perform User Acceptance Testing on fee guidelines within New Invoice - November 30, 2011
- Update procedural documentation based on changes to business rules and business policy - October 31, 2011
- Enhance quality control regiment by creating exception reporting for New Invoice () attorney firms, and invoices paid by HBIO and HBUS personnel - October 31, 2011
- Complete MIS reporting requirements for monitoring exceptions - November 30, 2011

In an effort to enhance automation and reduce manual controls, a technology project has been implemented. Business requirements were completed on September 16, 2011. Implementation timeline for the technology enhancements is scheduled for March 2012. Business requirements for the [REDACTED] platform are targeted for completion by December 31, 2011

Documents to be submitted with the Action Plan

- MEMORANDUM - Business Risk and Control Assessment
- Late Charge (Fee) Matrix Procedure MS

Additional documents completed for re-submission of Action Plan

- Disbursements Project Plan 10142011
- Late Fee Enforcement Thresholds Policy ALL
- Secured Default Fees and Costs Policy ALL
- RCA Report for Fees and Disbursements

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO

Article 8(i)

FRB Order Reference:	Article 8(i)	Corresponding OCC Article:	IV.1.g
<i>processes to ensure that foreclosure sales (including the calculation of the default period, the amounts due, and compliance with notice requirements) and post-sale confirmation are in accordance with the terms of the mortgage loan and applicable state and federal law requirements;</i>			
Action Plan			
<p>HBIO and HBUS have existing processes, as described below, to ensure that foreclosure sales (including the calculation of the default period, the amounts due, and compliance with notice requirements) and post-sale confirmation are in accordance with the terms of the mortgage loan and applicable state and federal law requirements.</p>			
<u>Existing Processes / Programs:</u>			
<p>HBIO and HBUS have designed a foreclosure review process to ensure legal actions are taken only when accounts have met the pre-foreclosure requirements, as described in the attached Foreclosure Review Group C&D Re-Review Procedure CML document which includes, among other items, steps to ensure that foreclosure sales (including the calculation of the default period, the amounts due, and compliance with notice requirements) and post-sale confirmation are in accordance with the terms of the mortgage loan and applicable state and federal law requirements.</p>			
<p>HBIO and HBUS have recently enhanced these processes to require the viewing of imaged collateral documents and other applicable documents (including demand / breach letters) to initiate foreclosures. This enhancement, made April 17, 2011, updates the previous checklist which did not require viewing imaged documents.</p>			
<p>HBIO and HBUS have a systematic process to calculate amounts due which are incorporated in the breach letter. The systems ([REDACTED]) also have pre-defined criteria to create breach letters in accordance with applicable state and federal law requirements. In the event of a change in law or a new law that impacts the breach letters, breach letter templates will be updated to be in compliance with the new or changed law, uploaded into the system, and tested to ensure the change is reflected in the new systematically generated letter. Any changes in law or new laws are identified through the law change monitoring process outlined in the Action Plan in response to Article 7(b). Management reviewed the process noted above in conjunction with the Order requirements to ensure that the process complies with the Order.</p>			
<p>Individual state foreclosure tracking templates are established on the servicing system and used to monitor post-redemption/confirmation periods. HBIO and HBUS monitor</p>			

these templates and have reporting in place to ensure post-sale requirements are appropriately met. Checklists are generated at the account level and completed by a Foreclosure employee to ensure compliance with applicable state and federal law requirements specific to a loan's jurisdiction. Sales results and confirmations are tracked and sent to Late Stage Default management for review.

Both the breach letter templates and the foreclosure tracking templates are updated by Enterprise Business Solutions team ("EBS"). The Law Change Working Group ("LCWG" - Refer to Article 7(b) for additional information regarding the Law Change Working Group or Late Stage Default management identifies any required template changes and works with EBS to design, test, and implement these changes.

Foreclosure sale and post-sale confirmation are managed through tasks that reside on the servicing system. These tasks are defined by the courts & foreclosure attorneys or applicable state law. The Foreclosure Team and the Real Estate Owned ("REO") team manage the execution of foreclosure sales and post-sale confirmations by these tasks on the servicing system. For example, a task date is set for expiration of the redemption period after a foreclosure sale has been executed. The timing of this task is set by state law, the court that provides judgment and/or the foreclosure attorney. Once this task date arrives, it queues the REO agent to contact the foreclosure attorney and confirm that all redemption and confirmation requirements (both due to loan terms and court order/state & federal law) are met. The agent then is allowed to set up additional tasks to process the account as an REO. Post-sale task reporting is the responsibility of Foreclosure and REO management.

Compliance completed a review of redemption periods as part of the Foreclosure Risk Assessment (detailed in Article 7(a)). As a result, state specific requirements were added to the procedure "REO During Redemption Period ALL". Additionally, MIS enhancements are underway to create an exception report to ensure the redemption period has expired prior to taking possession of the property. For further details on redemption see the attached HSBC Consumer Mortgage Lending REO in Redemption Process in its entirety.

HBIO and HBUS completed a review of their existing controls for the processes noted above to ensure compliance with applicable state and federal laws. Specifically, Compliance reviewed the Nationwide Foreclosure Summary procedure which outlines HBIO and HBUS pre-foreclosure business practices and regulatory requirements by state (see Nationwide Foreclosure Summary and Nationwide Foreclosure Summary ALL). HBIO and HBUS have enhanced their processes to review source documents in the foreclosure review process versus relying only on the system of record. Additionally, a checklist is required on all portfolios and all systems to reinforce foreclosure review requirements (see Foreclosure Review Group Re-Review Procedure CML, Foreclosure Review Group C&D Re-Review Procedure HBUS).

Documents to be submitted with the Action Plan

- Foreclosure Review Group C&D Re-Review Procedure CML (see revised

Foreclosure Review Group Re-Review Procedure CML below)

- Foreclosure Policy ALL
- Foreclosure Sales Results Procedure ALL
- Real Estate Owned (REO) Policy ALL
- REO During Redemption Procedure ALL

Additional documents completed for re-submission of Action Plan

- HSBC Consumer & Mortgage Lending REO in Redemption Process
- Nationwide Foreclosure Summary
- Nationwide Foreclosure Summary ALL
- Foreclosure Review Group C&D Re-Review Procedure HBUS
- Foreclosure Review Group Re-Review Procedure CML

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED] SVP Default Services

Article 8(j)

FRB Order Reference:	<i>Article 8(j)</i>	Corresponding OCC Article:	<i>IV.1.q</i>
<i>procedures to ensure compliance with bankruptcy law requirements, including a prohibition on collection of fees in violation of bankruptcy's automatic stay (11 U.S.C. § 362), the discharge injunction (11 U.S.C. § 524), or any applicable court order;</i>			
Action Plan			
<p>HBIO and HBUS have an existing process which prohibits the collection of fees in violation of bankruptcy's automatic stay, however associated policies, procedures, and training are being enhanced to ensure full compliance with the Order.</p>			
<u>Existing Processes / Programs:</u>			
<p>It is HBIO's and HBUS' policy that collection activity will cease, in compliance with the automatic stay, when HBIO and HBUS are notified that a bankruptcy case has been filed. (See Chapter 11_12 and 13 Bankruptcy Policy ALL, pages 1 through 4, and Chapter 7 Bankruptcy Policy, pages 1 through 4).</p>			
<p>To fully ensure compliance with bankruptcy law requirements, including a prohibition on collection of fees in violation of bankruptcy's automatic stay (11 U.S.C. § 362), the discharge injunction (11 U.S.C. § 524), or any applicable court order, HBIO and HBUS engaged outside counsel to assist with and conduct a review of bankruptcy procedures, processes, and training materials for document review, execution, and notarization and note ownership in connection with bankruptcy proceedings. This review was completed as of August 11, 2011, and is the same review referenced in Action Plan Article 8(e).iii (see MEMORANDUM Bankruptcy Report).</p>			
<p>HBIO has existing Quality Control functions as part of the first line of defense to monitor for compliance with applicable bankruptcy laws. Within the Bankruptcy Department, there are dedicated resources responsible for conducting quality reviews to ensure adherence to policies, procedures and business practices. This team provides quality review results to the Senior Vice President Default Management. Additionally, Service Delivery Control Adherence ("SDCA") reviews bankruptcy processes in the course of their work, and provides a second line of defense for bankruptcy functions. SDCA is managed separately from Residential Mortgage Servicing management and reports to a central quality review Service Delivery function. Bankruptcy processes are also reviewed by Compliance, TRAC, and Group Audit North America. A review of the Bankruptcy processes by TRAC and Group Audit North America is scheduled in the fourth quarter of 2011. The existing functions are being reviewed as part of the bankruptcy review described above.</p>			
<u>Enhancement to Processes / Programs:</u>			
Based on the review related to bankruptcy procedures, processes, and training			

materials completed by outside counsel noted above, HBIO and HBUS will make enhancements to documents, policies, procedures, processes, and training materials which are expected to be completed within the fourth quarter of 2011 (see attachment Bankruptcy Workstream September 7th, 2011 in its entirety). Business requirements for specific technology enhancements for the Bankruptcy Workstream are expected to be completed by November 30, 2011, with the resulting technology implementation target dates to be received in Q1 2012.

Documents to be submitted with the Action Plan

- Chapter 11, 12, and 13 Bankruptcy Policy ALL
- Chapter 7 Bankruptcy Policy

Additional documents completed for re-submission of Action Plan

- MEMORANDUM Bankruptcy Report

Key HSBC Contacts for the Action Plan

- [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED], SVP Deputy General Counsel, CML

Article 8(k)

FRB Order Reference:	Article 8(k)	Corresponding OCC Article:	IV.1.j
<p><i>the scope and frequency of independent testing for compliance with the Legal Requirements, supervisory guidance of the Board of Governors, and the requirements of the Mortgage Servicing Companies' internal policies, procedures, and processes by qualified parties with requisite knowledge and ability (which may include internal audit) who are independent of the Mortgage Servicing Companies' business lines and compliance function;</i></p>			
<p>Action Plan</p> <p>HBIO and HBUS have existing processes, as described below, to ensure the scope and frequency of independent testing for compliance with the Legal Requirements, supervisory guidance of the Board of Governors, and the requirements of the Mortgage Servicing Companies' and Bank's internal policies, procedures, and processes and that such independent testing is performed by qualified parties with requisite knowledge and ability who are independent of HBIO's and HBUS' business lines and compliance function.</p> <p><u>Existing Processes / Programs:</u></p> <p>HBIO and HBUS have existing processes whereby testing is completed independent of the lines of business through second and third line of defense functions by qualified persons with requisite knowledge and ability in order to maintain HBIO's and HBUS' ongoing compliance with Legal Requirements, supervisory guidance, as well as adherence to internal policies, procedures, and processes. Management in each of the second and third line of defense functions reviewed the policies and procedures for the respective areas and confirmed (subject to the planned second line of defense remediation described below) that the existing functions and processes noted below exist and are believed to meet this requirement of the Order. The existing independent testing processes are as follows:</p> <ul style="list-style-type: none"> • TRAC, a part of HNAH Compliance, conducts ongoing testing for compliance with the Legal Requirements and supervisory guidance that is independent from business line compliance. • SDCA serves as a second line of defense which is managed separately from the business lines, reporting to a central Corporate Quality Utility. SDCA provides an independent, objective and ongoing assessment to senior management of operational adherence to policies, procedures, and Group standards, as well as of the effectiveness of the first line of defense internal control framework for HNAH business operations. • Group Audit North America serves as a third line of defense for business operations, assessing whether the primary controls are adequate to address relevant risks and whether the secondary controls are operating effectively. 			

In addition to these processes, HNAH requires that every employee, including those in Group Audit North America, complete Ethics Awareness and Certification training. Furthermore, the Audit and Risk Committee is comprised completely of independent members or non-employees.

Compliance

TRAC is a separate and independent function that is responsible for monitoring the business units and is comprised of compliance personnel with specialized knowledge of each business functional area. Formalizing a centralized testing team within HNAH Compliance reinforces the independence of risk measurement, risk assessment, risk monitoring and testing, and enhances the effectiveness and objectivity of these processes.

On an annual basis, TRAC validates the line of business risk assessment results and, in accordance with the HSBC Group Standards, performs assessments of the effectiveness of the line of business compliance program activities.

TRAC's specific roles and responsibilities, which are provided in greater detail within the HSBC - North America Compliance Risk Management Program Manual, include:

- developing and maintaining firm-wide compliance risk assessment processes, methodologies and tools;
- leading the execution and oversight of the General Enterprise-wide Risk Assessment and facilitating and performing quality assurance of the results of the Detail Self Assessment, in conjunction with business line management and business line compliance officers;
- developing and maintaining firm-wide compliance monitoring and review programs, policies, procedures, processes and standards;
- annually reviewing business line/Compliance Officer compliance programs and processes, including Compliance Officer issue remediation activities;
- annually reviewing the effectiveness of the HNAH Compliance Risk Management Program;
- administering the Matters Requiring Attention (“MRAs”) tracking and validation program to include tracking of MRAs, validating remediation and reporting MRA status to Group Compliance EXCO, senior management, Risk Governance Committees, and Compliance Committee; and
- Maintaining processes to track, escalate and report material compliance issues and any corrective actions identified through examinations, inspections, compliance monitoring and reviews, or other means.

Service Delivery Control Adherence

SDCA provides an independent, objective and ongoing assessment of operational adherence to policies, procedures, and Group Standards to Residential Mortgage Servicing Management. To maintain independence, SDCA is managed separately from Residential Mortgage Servicing management, reporting to a central Corporate Quality Utility. SDCA reports its findings to the appropriate business unit executive management. Consideration is given as to whether the findings reported by SDCA should also be reported as a Top Control Issue in the quarterly ORIC report.

SDCA conducted a gap analysis, completed April 15, 2011, to identify: 1) areas that were not previously covered in the SDCA scope, 2) new controls to be implemented by business operations, and 3) areas that require more detailed testing by SDCA. SDCA created new process reviews for [REDACTED] and MERS (as these were not previously in scope) and identified testing gaps relating to key controls in existing reviews for Loss Mitigation, loan modifications and foreclosures. [REDACTED]

[REDACTED] As a result of the gap analysis, SDCA is in the process of enhancing and/or creating additional quality assurance test plans to perform additional testing of foreclosure activities. SDCA completed a draft of the revised and new test plans as of August 11, 2011, and after internal review and approval, the new test plans were implemented as of September 12, 2011. The attached SDCA QA Proposed Test Plan for Mortgage Electronic Registration System (MERS), SDCA QA Proposed Test Plan for [REDACTED] [REDACTED] and SDCA QA Proposed Test Plan for Foreclosure provide the Criteria, Test Steps, and Desired Results for each of these reviews.

Group Audit North America recently conducted a review of SDCA and identified issues which were set forth in a final report completed on June 24, 2011, and is provided as support with this Action Plan (See Group Audit North America – Themed Review of HNAH Quality Assurance in its entirety for details regarding the SDCA activities that were reviewed, issues that were identified, and conclusions of this review - please note that more than just CML is included in this report). Issues identified in the report include the need to more adequately define in the SDCA charter the accountability and authority of SDCA within the HNAH risk governance structure; the need to enhance the SDCA risk assessment methodology; and the need for SDCA management to enhance quality assurance reviews of SDCA staff work to validate the adequacy of the testing scope, execution of the planned procedures (or documenting reasons for changes thereto), and appropriateness of SDCA staff judgment applied during the reviews.

As of August 17, 2011, SDCA responded to Audit with a plan to take immediate actions to remediate the issues identified. SDCA has developed an enhanced Risk Assessment, improved the manager review process, and updated procedures to require that flow charts or process flow descriptions are included as standard work papers on every process review completed by SDCA staff. For additional detail regarding the SDCA response, see Themed Review of:

- HNAH Quality Assurance - AUN RTA 11002 (SDCA responses throughout the document in blue text)
- Themed Review of HNAH Quality Assurance – Medium Risk Findings and Efficiencies and Best Practices Summary (SDCA responses throughout the document in blue text)
- Service Delivery Control Adherence Remediation Summary CMLCRS Related Matters (status of remediation steps throughout the presentation), and SDCA

Remediation_090811 (spreadsheet that provides the Findings Summary, Remediation Actions, and Status for SDCA remediation efforts)

Group Audit North America will validate the remediation actions based on its methodology for tracking and validating issues. Remediation is targeted for completion October 31, 2011.

Group Audit North America

Group Audit North America has assessed identified risks and enhanced its audit programs to address requirements of the Order. Please refer to the Internal Audit Program and the Action Plans for Article 16 and Article 17 of the Order for further information. Additionally, please see the detailed audit plans noted below in their entirety:

- AUDIT INFORMATION SYSTEM WORKING PAPER MODULE ICQ-PROGRAM FORM - BACK-END
- AUDIT INFORMATION SYSTEM WORKING PAPER MODULE ICQ-PROGRAM FORM - FRONT-END
- AUDIT INFORMATION SYSTEM WORKING PAPER MODULE ICQ-PROGRAM FORM - STANDARD
- AUN RESIDENTIAL MORTGAGE SERVICING AND NON REAL ESTATE DEFAULT SERVICES
- AUN GAP ANALYSIS – FRB CONSENT ORDER vs AUDIT PROGRAMS

To establish independence of Group Audit, personnel report to the Executive Vice President (“EVP”) Internal Audit, who functionally reports to the Senior Executive Vice President (“SEVP”) Internal Audit HNAH and administratively to the Chief Executive Officer – HBIO. The EVP Internal Audit has unfettered access to Senior Executive Management and meets periodically with business and corporate function heads to see that existing and emerging issues across the organization are effectively factored into the internal audit plan. The EVP Internal Audit also sits as a non-voting member on key risk management and governance committees established at HNAH. Please refer to the attached THE HSBC GROUP AUDIT STANDARDS MANUAL which provides a Code of Ethics for Group Audit, which addresses the concept of independence for every member of the function:

“The duties and responsibilities of the audit function are often highly sensitive and, accordingly, require an attitude on the part of each auditor that constitutes an independence of mind and a level of personal integrity greater than that required of personnel at similar levels of authority in other areas of the Company. All members of the Audit staff have, by the nature of their role, unique professional obligations to the Company, its customers, stockholders, directors and the general public. These obligations are met through adherence to a code of professional ethics (see below), the application of which requires each auditor to conduct his or her personal and professional activities in a manner that will not leave their personal and professional integrity open to

question. Group Audit work is expected to be performed with proficiency and due professional care.”

HBIO and HBUS rely upon Compliance, SDCA, and Group Audit North America to provide several levels of on-going testing for compliance with the Legal Requirements, supervisory guidance of the Board of Governors, and the requirements of the Mortgage Servicing Companies’ and Bank’s internal policies, procedures, and processes to meet this requirement of the Order. Compliance, SDCA (subject to the planned remediation described above), and Group Audit North America management believe the policies and procedures for their respective areas, as described above, satisfy the requirements of the Order. Notwithstanding, processes and procedures are subject to on-going review in the ordinary course of business to determine whether revisions or enhancements thereto are appropriate or necessary,

Enhancement to Processes / Programs:

The TRAC team will be conducting its annual Compliance monitoring and testing process for foreclosure review. The review has commenced as of October 3, 2011, and is expected to be completed before year-end. Please refer to Article 7(a) for additional information.

Group Audit North America began an audit of the foreclosure, Loss Mitigation, and mortgage servicing areas on October 3, 2011. The audit consists of three phases: Planning, Field Work, and Report Creation. The “Planning Phase” of the audit is expected to last from October 3, 2011, through October 14, 2011, and will focus on updating audit test plans to ensure testing coverage based on changes to processes, procedures, and other related changes that have occurred as a result of the Consent Orders (e.g., affidavit and notary processing, changes to bankruptcy processes, etc.). Field Work is expected to begin on October 17, 2011, which will include the testing of controls through transactional walk-throughs, review of policies and procedures, detailed sample testing, etc. For this specific audit, fieldwork will be completed by Audit staff with the assistance of two SDCA FTEs who will work under Audit’s supervision. Group North America Audit is targeting finalizing the Audit Report by December 19, 2011.

Additionally, TRAC and Group Audit North America are coordinating their reviews to ensure full coverage from both the compliance and operational perspective. It has not yet been determined if two separate reports will be issued.

Documents to be submitted with the Action Plan

- AUN BACK-END RESECURED DEFAULT SERVICES AUDIT (This document has been combined with other previously submitted documents. See revised “AUN GAP ANALYSIS - FRB CONSENT ORDER vs AUDIT PROGRAMS” below)
- AUDIT INFORMATION SYSTEM WORKING PAPER MODULE ICQ-PROGRAM FORM - BACK-END

- FRONT-END COLLECTIONS NRE SECURED DEFAULT SERVICES (This document has been combined with other previously submitted documents. See revised "AUN GAP ANALYSIS - FRB CONSENT ORDER vs AUDIT PROGRAMS" below)
- AUDIT INFORMATION SYSTEM WORKING PAPER MODULE ICQ-PROGRAM FORM - FRONT-END
- AUN STANDARD RISKS, CONTROLS & AUDIT PROGRAMS (This document has been combined with other previously submitted documents. See revised "AUN RESIDENTIAL MORTGAGE SERVICING AND NON REAL ESTATE DEFAULT SERVICES" below)
- AUDIT INFORMATION SYSTEM WORKING PAPER MODULE ICQ-PROGRAM FORM - STANDARD
- AUN GAP ANALYSIS - CONSENT ORDERS (This document has been combined with other previously submitted documents. See revised "AUN GAP ANALYSIS - FRB CONSENT ORDER vs AUDIT PROGRAMS" below)
- HSBC - North America Compliance Risk Management Program Manual (see revised HSBC – North America Compliance Risk Management Program Manual below, last revised September 2011)
- AUN RESIDENTIAL MORTGAGE SERVICING AND NON REAL ESTATE DEFAULT SERVICES
- Testing and Risk Assessment Compliance Unit (TRAC) Procedures Manual
- HSBC – North America Compliance Risk Mitigation Program
- Group Audit North America – Themed Review of HNAH Quality Assurance
- AUN GAP ANALYSIS – FRB CONSENT ORDER vs AUDIT PROGRAMS

Additional documents completed for re-submission of Action Plan

- SDCA QA Proposed Test Plan for Mortgage Electronic Registration System (MERS)
- SDCA QA Proposed Test Plan for [REDACTED] ([REDACTED])
- SDCA QA Proposed Test Plan for Foreclosure
- Themed Review of HNAH Quality Assurance - AUN RTA 11002
- THEMED REVIEW OF HNAH QUALITY ASSURANCE - MEDIUM RISK FINDINGS AND EFFICIENCIES AND BEST PRACTICES SUMMARY
- Service Delivery Control Adherence Remediation Summary CMLCRS Related Matters
- SDCA Remediation_090811
- Disbursements Project Plan 10142011
- THE HSBC GROUP AUDIT STANDARDS MANUAL
- HSBC – North America Compliance Risk Management Program Manual

Key HSBC Contacts for the Action Plan

- [REDACTED] EVP/Chief Auditor, HBIO
- [REDACTED], SVP General Compliance
- [REDACTED] SVP Service Delivery Control Adherence
- [REDACTED] SVP General Compliance



Article 8(l)

FRB Order Reference:	<i>Article 8(l)</i>	Corresponding OCC Article:	<i>IV.1.k</i>
<i>measures to ensure that policies, procedures, and processes are updated on an ongoing basis as necessary to incorporate new or changes to Legal Requirements and supervisory guidance of the Board of Governors;</i>			
Action Plan			
<p>HNAH has processes in place to ensure policies, procedures, and processes are updated on an on-going basis to incorporate new or changes to Legal Requirements and supervisory guidance of the Board of Governors. In addition, HNAH has implemented a Good Governance Initiative (discussed further below) to provide an additional level of review.</p>			
<u>Existing Processes / Programs:</u>			
<p>Management has a comprehensive process in place to identify, communicate and implement changes to Legal Requirements and supervisory guidance into its business practices. The RMA group manages the regulatory monitoring and change management process in order to facilitate compliance with the applicable Legal Requirements and Board of Governors supervisory guidance (See HSBC North America New Laws and Regulations Procedure – US). This procedure provides guidelines for monitoring and tracking regulatory changes and updating processes appropriately.</p>			
<p>In its efforts to identify and communicate changes in applicable laws, rules, and regulations, the RMA group performs the following activities (among others):</p>			
<ul style="list-style-type: none"> • Monitor and track new and changed laws, regulations, and regulatory guidance; • Track legislative, judicial, and regulatory developments, to identify potential emerging compliance risks; <ul style="list-style-type: none"> ○ Various sources for monitoring are utilized including, but not limited to: the Federal Register; regulatory agency websites (e.g., OCC, FRB, FDIC); trade associations; monitoring services; and various law firm websites • Complete business impact analysis for new or changed regulatory requirements; and; • Communicate new legislative alerts to appropriate Residential Mortgage Servicing departments for action 			
<p>The RMA group collaborates with Legal and Compliance to determine the applicability of the legislation, rule or regulation and the business areas impacted. If it is determined that there is an impact to a business area, the RMA group outlines the detailed requirements in an Impact Assessment document, which it then forwards to Legal for review. The RMA group and Compliance, together with the impacted</p>			

business area, determine the impact to the business. The RMA then publishes an executive summary, which is called the New Legislation Alert (which includes the Impact Assessment), and distributes it to the impacted business areas. The impacted business areas work with the LCWG, Compliance Officers, and Legal (as appropriate), to update the policies, procedures and processes, and ensure implementation by the effective date of the law change. The detailed RMA and LCWG procedures are attached for reference (See Law Change Process and Implementation and Law Implementation Procedure ALL in their entirety).

The Operational Quality and Process Assurance (“OQPA”) group reviews updated policies, procedures, processes, and training materials for accuracy and alignment with the Legal Requirements and supervisory guidance as well as business practices. Within 90 days of implementation, the SDCA group conducts an independent review of the impacted business units’ processes for adherence.

Residential Mortgage Servicing and business owners are required to annually certify the accuracy and completeness of the policies, procedures, and processes, including updates or revisions based on changes to Legal Requirements or supervisory guidance. Revisions or updates to policies and procedures may occur on a more frequent basis as dictated by changes in Legal Requirements or supervisory guidance. To document that the certification process has occurred, each policy or procedure is submitted through a change control process. A Change Control Request Form (“CCR”) is submitted to the appropriate business owners, with the document(s) attached that requires certification. The CCR form systemically tracks to ensure all required approvals have been obtained. Annually, each business process owner will certify that the policies and procedures applicable to their area of responsibility are accurate. This annual certification will be maintained by the OQPA group. All policies and procedures are expected to be certified as part of the Good Governance Initiative by the end of the fourth quarter of 2011.

Residential Mortgage Servicing is subject to many Legal Requirements that vary by state and at times at a local level, and therefore has adopted more than 100 policies and over 3,000 procedures that address these variations. Management is committed to revising and updating procedures as appropriate. To that end, Residential Mortgage Servicing began reviewing its foreclosure procedures prior to the commencement of the supervisory foreclosure practices review, and it continues to make updates as new or changed Legal Requirements and supervisory guidance are released. Initial procedures reviewed were notary and affidavit procedures which identified necessary enhancements including the procedural requirement that all signers sign in the presence of the notary following administration of an oath. The affidavit procedure enhancements identified included the expansion of general affidavit procedures for all applicable states, as existing procedures were in place only for certain states. Additional policies and procedures specific to Loss Mitigation related activities and key processes within Residential Mortgage Servicing such as Adverse Action Suspended Letter Procedure CML and Optional Insurance Procedure MC are expected to be updated in accordance with the timeline outlined in the Good

Governance Initiative (See “Enhancement to Processes/Programs” section below for additional information regarding the Good Governance program and the attached Good Governance – Project Overview for details regarding the Good Governance Process and Scope).

The processes performed by the RMA, LCWG, and OQPA groups described above ensure that policies, procedures, and processes incorporate new or changes to Legal Requirements and supervisory guidance of the Board of Governors as directed by the Order. Additionally, Compliance SVPs have reviewed existing policies, procedures, and processes to ensure they meet the requirements of the Order.

Enhancement to Processes / Programs:

To ensure that HNAH has fully documented policies and procedures and that all employees understand and consistently follow them, HNAH has established the Good Governance Initiative. Its objective is to ensure that there are proper procedures in place within HNAH for all applicable business and operational processes, and that these procedures are clear, concise, thorough, and accurate. Currently, HNAH is completing the following:

- Reviewing procedures for accuracy
- Conducting a root cause / trend analysis of past procedural breaches
- Implementing improvements pertaining to areas of concern beyond the actual procedures such as accessibility of procedures, appropriate controls and oversight, training, etc.

HNAH is following a five step process for review of procedures, and identifying and addressing any gaps. There is a standard template that guides the five steps of project implementation.

- Develop Procedures and Process Inventory
- Develop Breaches Inventory
- Conduct Gap Analysis
- Define Recommendations
- Implement Recommendations

The attached “Good Governance Project US HNAH” document, which provides additional details regarding project background, objectives, approach, governance, and specifications, was provided as part of the answers to the FRB question submitted on August 19, 2011. All policies and procedures are expected to be certified as part of the Good Governance Initiative by the end of the fourth quarter of 2011.

Additionally, an annual review of policies and procedures is required and there is a change control process in place that requires updates to policies and procedures be reviewed in advance of operational changes by delegated senior leaders and Compliance. In 2011, HNAH launched an initiative to reorganize procedures on [REDACTED] ([REDACTED] and is in the process

of improving reporting. The enhancements to [REDACTED] were completed in July 2011. HNAH has also committed to develop 18 functional courses which include the review of policies and procedures and an assessment to ensure staff members are appropriately trained and educated on key operational practices.

Please reference the attached files for examples of procedures that are housed in [REDACTED]

- [REDACTED] Foreclosure Initiation Procedure CML – outlines the process on how the Foreclosure Department initiates approved foreclosures (new referrals) on [REDACTED] accounts.
- Short Sale and DIL Referral Procedure CML – outlines the steps for referring an account to the Short Sale, Deed-in-Lieu of Foreclosure or Proactive Departments.
- Incoming Mail and Imaging Procedure CML – outlines how the Modification Support Department processes incoming mail and how documentation is prepared for the Document Image Capture Center.

The attached documents provide a list of procedures that were updated for each respective topic:

- Consent Order_Certification_SCRA.9.7.11
- Consent Order_Certification_Notary.9.7.11
- Consent Order_Certification_Loss Mitigation.9.7.11
- Consent Order_Certification_Foreclosure.9.7.11
- Consent Order_Certification_SPOC.9.7.11
- Consent Order_Certification_Collateral Management.9.7.11

Documents to be submitted with the Action Plan

- HSBC – North America Compliance Risk Management Program Manual (see revised HSBC – North America Compliance Risk Management Program Manual below, last revised September 2011)
- Law Change Process and Implementation
- HSBC North America New Laws and Regulations Procedure – US
- Policy Creation and Revision Procedure ALL
- Good Governance – Project Overview

Additional documents completed for re-submission of Action Plan

- [REDACTED] Foreclosure Initiation Procedure CML
- Short Sale and DIL Referral Procedure CML
- Incoming Mail and Imaging Procedure CML
- Consent Order_Certification_SCRA.9.7.11
- Consent Order_Certification_Notary.9.7.11
- Consent Order_Certification_Loss Mitigation.9.7.11
- Consent Order_Certification_Foreclosure.9.7.11

- Consent Order_Certification_SPOC.9.7.11
- Consent Order_Certification_Collateral Management.9.7.11
- Good Governance Project US HNAH
- HSBC – North America Compliance Risk Management Program Manual

Key HSBC Contacts for the Action Plan

- [REDACTED], SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO
- [REDACTED], SVP Regulatory Monitoring and Assessment
- [REDACTED], SVP General Compliance
- [REDACTED], SVP Deputy General Counsel, CML
- [REDACTED], SVP Default Services

Article 8(m)

FRB Order Reference:	<i>Article 8(m)</i>	Corresponding OCC Article:	<i>N/A</i>
<i>the findings, and conclusions, of the independent consultant(s) engaged by HNAH and HBIO under paragraph 3 to review the Mortgage Servicing Companies' foreclosure processes.</i>			
Action Plan Pursuant to the Foreclosure Report, which shall include the findings and conclusions of the independent consultant's review of HNAH's and HBIO's foreclosure processes, HNAH and HBIO shall, within 45 days, provide a compliance program that addresses these findings. The program may include, but not be limited to: <ul style="list-style-type: none">• remediation of errors in any foreclosure filing;• remediation to borrower for any impermissible penalties or fees; and• remediation when any unauthorized foreclosure sale occurred.			
Documents to be submitted with the Action Plan None at this time.			
Key HSBC Contacts for the Action Plan <ul style="list-style-type: none">• [REDACTED] SVP Strategy, Operational Risk Management and Chief Information Risk Officer, HBIO• [REDACTED], SVP General Compliance			